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# Foreign Relations of the United States 1948

Volume IX

The Western Hemisphere



United States  
Government Printing Office  
Washington : 1972

JX 233 . A3 1948 U.9

DEPARTMENT OF STATE PUBLICATION 8626

HISTORICAL OFFICE

BUREAU OF PUBLIC AFFAIRS

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## PREFACE

This volume was prepared under the direct supervision of S. Everett Gleason, former Chief of the Foreign Relations Division, assisted by Fredrick Aandahl, the present Chief.

Almon R. Wright prepared the compilations on Argentina and Brazil. Velma Hastings Cassidy compiled the remaining documentation on United States relations with the other American republics. David H. Stauffer prepared the documentation on United States relations with Canada and assisted with the final editorial work on the volume.

The technical editing of the volume was the responsibility of the Publishing and Reproduction Services Division, Jerome H. Perlmutter, Chief. This function was performed in the Documentary Editing Section, under the direction of the former Chief, Margaret H. Seamon, by Helen V. Gilbert and Margie R. Wilber.

WILLIAM M. FRANKLIN  
*Director, Historical Office*  
*Bureau of Public Affairs*

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### PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 2 FAM 1350 of June 15, 1961, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the regulation, as further amended, is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. These volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Depart-

ment's files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

### 1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States* is edited by the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record is guided by the principles of historical objectivity. There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

- a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
- b. To condense the record and avoid repetition of needless details.
- c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
- d. To avoid giving needless offense to other nationalities or individuals.
- e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternatives presented to the Department before the decision was made.

### 1353 *Clearance*

To obtain appropriate clearances of material to be published in *Foreign Relations of the United States*, the Historical Office:

- a. Refers to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refers to the appropriate foreign governments requests for permission to print as part of the diplomatic correspondence of the United States those previously unpublished documents which were originated by the foreign governments.

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## LIST OF ABBREVIATIONS AND SYMBOLS

EDITOR'S NOTE.—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurrence which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

- AD, *Acción Democrática* (Democratic Action Party in Venezuela)
- ADA, Area Division IV (American Republics), in the Office of Information and Educational Exchange\*
- ADP, Airport Development Program
- AEC, Atomic Energy Commission
- A.F. of L., American Federation of Labor
- Am Reps, American Republics
- ARA, Office of American Republic Affairs\*
- A-T, Office of the Assistant Secretary of State for Economic Affairs, Willard L. Thorp\*
- ATC, Air Transport Command
- AV, Aviation Division\*
- BC, Division of British Commonwealth Affairs\*
- BEPCO, Brazilian Electric Power Company
- Bog Conf, Bogotá Conference
- Bogdel, indicator for messages to Bogotá Conference from Department of State
- BOT, British Board of Trade
- BR, Division of Brazilian Affairs\*
- C, Office of the Counselor\*
- CA, Central American
- CAA, Civil Aeronautics Administration
- CAS, controlled American source
- CCC, Commodity Credit Corporation
- CFM, Council of Foreign Ministers
- CIA, Central Intelligence Agency
- cirtel, circular telegram
- CMTC, *Companhia Municipal de Transportes Coletivos* (São Paulo)
- COAS, Council of the Organization of American States
- ComGenCarib, or CominCarib, Commanding General, Caribbean Defense Command, General Willis D. Crittenger, until June 25, 1948, General Matthew B. Ridgway, after July 1, 1948
- Comis, Commission
- CP, Division of Commercial Policy\*
- CP, Communist Party
- CPA, Division of Central America and Panama Affairs\*
- CRB, Division of Caribbean Affairs\*
- CTAL, *Confederación de Trabajadores de América Latina*
- CTCR, Labor federation (Costa Rica)
- del, delegation
- Delbog, indicator for messages to Department of State from Bogotá Conference
- Delga, indicator for telegrams from the U.S. Delegation to the Third Session of the United Nations General Assembly, September–December, 1948
- Depcirtel, Department (of State)'s circular telegram
- Deptel, Department (of State)'s telegram
- Dep US Rep, Deputy United States Representative
- EAS, Executive Agreements Series
- ECA, Economic Cooperation Administration
- ECEFP, Executive Committee on Economic Foreign Policy

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\*Components of the Department of State.

<b>ECLA</b> , Economic Commission for Latin America	<b>IA</b> , Division of Special Inter-American Affairs*
<b>ECOSOC</b> , Economic and Social Council of the United Nations	<b>IADB</b> , Inter-American Defense Board
<b>ED</b> , Division of Investment and Economic Development*	<b>IA-ECOSOC</b> , Inter-American Economic and Social Council
<b>Emb</b> , Embassy	<b>IC</b> , Interim Committee of the United Nations General Assembly
<b>Embtel</b> , Embassy's telegram	<b>ICJ</b> , International Court of Justice
<b>EP</b> , Division of Economic-Property Policy*	<b>IEFC</b> , International Emergency Food Committee
<b>ERP</b> , European Recovery Program	<b>ILO</b> , International Labor Organization
<b>EUR</b> , Office of European Affairs*	<b>IMF</b> , International Monetary Fund
<b>Eximbank</b> , Export-Import Bank of Washington	<b>info</b> , information
<b>FAO</b> , Food and Agriculture Organization	<b>infotel</b> , information telegram
<b>FBI</b> , Federal Bureau of Investigation	<b>IO</b> , Bureau of International Organization Affairs*
<b>FEA</b> , Foreign Economic Administration	<b>IR</b> , Division of International Resources*
<b>FinMin</b> , Finance Minister	<b>IS</b> , Division of International Security Affairs*
<b>FLC</b> , Foreign Liquidation Commissioner	<b>ITO</b> , International Trade Organization
<b>FN</b> , Division of Financial Affairs*	<b>ITP</b> , Office of International Trade Policy*
<b>FonMin</b> , Foreign Minister	<b>JBUSTC</b> , Joint Brazil-United States Technical Commission
<b>FonOff</b> , Foreign Office	<b>JCS</b> , Joint Chiefs of Staff
<b>FonSec</b> , Secretary of State for Foreign Affairs	<b>LA</b> , Latin America
<b>ForMin</b> , Foreign Minister	<b>LACSA</b> , <i>Lineas Aereas Costarriceses</i> , S.A. (Costa Rican Airlines)
<b>Frito</b> , indicator for telegrams from the United States Delegation to the United Nations Conference on Trade and Employment, Habana, November, 1947-March, 1948	<b>LL</b> , Lend lease
<b>The Fund</b> , The International Monetary Fund	<b>MA</b> , Division of Mexican Affairs*
<b>G</b> , Office of the Assistant Secretary of State for Political Affairs*	<b>MAP</b> , Military Assistance Program
<b>GA</b> , General Assembly of the United Nations	<b>Marit Comm</b> , Maritime Commission
<b>Gadel</b> , indicator for telegrams to the U.S. Delegation to the Third Session of the United Nations General Assembly, September-December, 1948	<b>Martel</b> , indicator for telegrams from the Secretary of State while abroad
<b>GATT</b> , General Agreement on Tariffs and Trade	<b>mfn</b> , most favored nation
<b>Gov Bd</b> , Governing Board of the Pan American Union	<b>MLC</b> , Military Liaison Committee
<b>H.J. Res.</b> , House of Representatives Joint Resolution	<b>MOS</b> , Minister of Supply (United Kingdom)
<b>HR</b> , House of Representatives Resolution	<b>MSC</b> , Military Staff Committee of the United Nations Security Council
<b>IA</b> , Inter-American	<b>mytel</b> , my telegram
	<b>NAC</b> , National Advisory Council on International Monetary and Financial Problems
	<b>Niact</b> , Night action (indicator for urgent messages)
	<b>NME</b> , National Military Establishment



- NRDB**, (National) Research and Development Board  
**NSC**, National Security Council  
**NSRB**, National Security Resources Board  
**NWC**, Division of North and West Coast Affairs, Office of American Republic Affairs\*  
**OAS, or OAR**, Organization of American States or Republics  
**OFD**, Office of Financial and Development Policy\*  
**OFLC**, Office of the Foreign Liquidation Commissioner  
**OIE**, Office of Information and Educational Exchange\*  
**OIR**, Office of Intelligence Research\*  
**OIT**, Office of International Trade\*  
**ourtel**, our telegram  
**PAA**, Pan American Airways  
**PanAm**, Pan American  
**PAU**, Pan American Union  
**PCA**, Policy Committee on Arms and Armaments\*  
**PED**, Petroleum Division\*  
**PEMEX**, *Petroleos Mexicanos* (a Mexican Government agency responsible for management of the Mexican petroleum industry)  
**PICAO**, Provisional International Civil Aviation Organization  
**PL**, Division of Public Liaison\*  
**POS**, Public Affairs Overseas Program Staff  
**PPS**, Policy Planning Staff\*  
**PRA**, Authentic Revolutionary Party (Panama)  
**PRA**, Public Roads Administration  
**Precom**, Preparatory Committee of the International Conference on Trade and Employment  
**QR**, Quantitative Restrictions  
**reDeptel**, reference Department's telegram  
**reEmbtel**, reference Embassy's telegram  
**reftel**, reference telegram  
**Rep**, Representative  
**reurtel**, reference your telegram  
**RPA**, Division of River Plate Affairs\*  
**rptd**, repeated  
**S**, Office of the Secretary of State\*  
**SANACC**, State - Army - Navy - Air Force Coordinating Committee  
**SC**, Security Council of the United Nations  
**S.J. Res.**, Senate Joint Resolution  
**S/P**, Policy Planning Staff\*  
**S/S**, Executive Secretariat\*  
**S/S-PR**, Protocol Staff\*  
**Stat**, United States Statutes at Large  
**SWNCC**, State-War-Navy Coordinating Committee  
**SYG**, Secretary General  
**TA**, Trade Agreement  
**TACA**, *Transportes Aereos Centro-americanos, S.A.*  
**TEC**, Technical cooperation  
**TIAS**, Treaties and Other International Acts Series  
**Toito**, indicator for telegrams to the United States Delegation to the United Nations Conference on Trade and Employment, Habana, November, 1947-March, 1948  
**TRC**, Office of Transport and Communications\*  
**TS**, Treaty Series  
**U**, Office of the Under Secretary of State\*  
**UKDel**, United Kingdom delegation  
**UN**, United Nations  
**UNA**, Office of United Nations Affairs\*  
**UNAEC**, United Nations Atomic Energy Commission  
**UNESCO**, United Nations Educational, Scientific, and Cultural Organization  
**UNGA**, General Assembly of the United Nations  
**UNO**, United Nations Organization  
**UNP**, Division of United Nations Political Affairs\*  
**UNS**, Division of International Security Affairs\*  
**UNSC**, United Nations Security Council  
**UNTS**, United Nations Treaty Series  
**urinfo**, your information  
**urtel**, your telegram

USA, United States Army  
USAF, United States Air Force  
USDel, United States Delegation  
USIS, United States Information  
Service  
USPolAd, United States Political  
Adviser

UST, United States Treaties and  
Other International Agreements  
USUN, United States Mission to the  
United Nations  
YPFB, *Yacimientos Petroliferos  
Fiscales Bolivianos* (a national  
entity of the Bolivian Government)

## WESTERN HEMISPHERE

### THE NINTH INTERNATIONAL CONFERENCE OF AMERICAN STATES, HELD AT BOGOTÁ, COLOMBIA, MARCH 30–MAY 2, 1948<sup>1</sup>

#### I. PREPARATION AND ORGANIZATION OF THE CONFERENCE

710.J/6-2647

*The Colombian Minister of Foreign Relations (Esguerra) to the Secretary of State*

Bogotá, June 26, 1947.

EXCELLENCY: Resolution CVIII of the Eighth International Conference of American States, which met in Lima in 1938,<sup>2</sup> selected Bogotá, the capital of Colombia, as the seat of the Ninth International Conference of American States, and, in conformity with the decision made by the Governing Board of the Pan American Union, at the session of May 7 last, the opening of the said Conference is to take place on Saturday, January 17, 1948.

In the name of the Government of Colombia I have the honor to invite, through the distinguished good offices of Your Excellency, the Government of the United States of America to be represented at the Ninth International Conference of American States through the designation of Delegates, who will receive in Colombia the most cordial welcome and whose cooperation for the successful outcome of so important a meeting will be especially valuable.

The program of the Ninth International Conference of American States will be sent directly to Your Excellency's Government by the Governing Board of the Pan American Union.

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<sup>1</sup> For additional documentation, and analytical and summary accounts of the Conference, see *Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication No. 3262, November 1948) hereinafter cited as USDel Report; *Novena Conferencia Internacional Americana, Bogotá, Marzo 30 de 1948: Actas y Documentos*, vols. I–VII (Bogotá, Ministerio de Relaciones Exteriores, 1954); "Report on the Ninth International Conference of American States", by Alberto Lleras, Secretary General of the Organization of American States, vol. I, No. 1, pp. 1 ff. (Washington, Pan American Union, 1949); and Charter of the Organization of American States, signed at Bogotá April 30, 1948, Department of State Treaties and Other International Acts Series 2361, in 2 UST 2394, pp. 2418–2420.

<sup>2</sup> For documentation on the Lima Conference, see *Foreign Relations*, 1938, vol. v, pp. 1 ff.

My Government will appreciate it very much if Your Excellency will be so good as to inform it, as soon as possible, of the number and names of the persons who will form the United States Delegation.

I avail [etc.]

DOMINGO ESGUERRA

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710.J/11-2847

*The Acting Secretary of State to Diplomatic Representatives in the  
American Republics*

CONFIDENTIAL

WASHINGTON, November 28, 1947.

SIRS: As the date for the Ninth International Conference of American States at Bogotá approaches, the Department wishes to provide you with general information and instructions concerning the Conference in order to facilitate any discussions on the subject which you may have occasion to undertake with the Foreign Office of the government to which you are accredited.

There are enclosed for your information a restricted memorandum on the Conference, referring particularly to preparatory work that is being done in Washington, and a copy of the Program and Regulations of the Conference prepared by the Governing Board of the Pan American Union.<sup>1</sup> The contents of the memorandum may in your discretion be used orally in any conversations you may have with the Foreign Office. Additional documents of interest will be forwarded to you in the near future.

The Department favors your exchanging views on appropriate occasions with the Foreign Office regarding the Bogotá Conference, and wishes you, in your discretion, to take advantage of any opportunity that may be offered to that end. Such conversations should prove useful particularly as a means of obtaining information concerning the main interests of the Foreign Office, any initiatives or proposals the Foreign Office has in mind, the composition of the delegation and other similar subjects that will facilitate the Department's own preparations. The following considerations should, however, be borne in mind:

1. The Department considers it important to protect the genuinely multilateral character of inter-American conferences. To this end, the Department would not wish to enter into consultations in regard to the Conference with any one country to the exclusion of others. Moreover, of even greater importance, is the Department's desire to avoid, in so far as possible, having to make any bilateral commitments with

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<sup>1</sup> Memorandum not printed. For the full agenda of the Conference, prepared and unanimously approved by the Governing Board on July 23, 1947, see USDel Report, p. 291. For the regulations of the Conference, revised by the Board on October 20, 1947, see *ibid.*, p. 292.



any other government with respect to the Conference. It would likewise regret to see any Latin American government enter into such commitments and would wish to know of any indications that any Foreign Office may be engaging in discussion with other governments for the purpose of arranging political commitments of any kind in advance of the Conference.

2. A large part of the responsibility for preparing for the Conference, with respect both to the regulations and the substance of the agreements to be reached there, has been placed upon the Governing Board of the Pan American Union and the Inter-American Economic and Social Council by action of previous inter-American conferences. As indicated in the attached memorandum, work on important basic documents of the Conference is being carried forward in these two bodies which, in as much as they consist of representatives of all the American republics, provide an excellent forum for the exchange of ideas amongst the various governments.

3. The reaching of an understanding among the participating countries concerning the election of officers of the various committees of the Conference is normally arranged on the initiative of the host government when the delegates arrive at the site of the Conference. Such a procedure is, in the opinion of the Department, far more desirable than a procedure whereby individual countries may seek commitments of support for such posts from other countries in advance. The Department, therefore, proposes to make no commitments on any such matters, but to review the question when the American delegation reaches Bogotá, with a view to deciding upon the most desirable slate of officers in the light of the wishes of the various countries and of the personal qualifications of the Chiefs of Delegation who would take the respective offices.

In any discussion which you may have with the Foreign Minister you should express the view that the Department looks forward to the Conference at Bogotá with every confidence that its many problems will be satisfactorily met in the same spirit of cooperation and solidarity as was evidenced at the Inter-American Conference for the Maintenance of Continental Peace and Security at Rio de Janeiro,<sup>2</sup> and in your discretion assure him that the American delegation at the Conference will seek to reestablish with the representatives of his government the cordial and cooperative relationship which our delegation to Rio de Janeiro enjoyed. You should say that in the opinion of the Department the preparatory work which is being carried forward in the Pan American Union and in other inter-American bodies, such as the Inter-American Juridical Committee, has been of great value in exploring the problems which the Conference will have to face and in bringing about a considerable measure of agreement on basic issues. This work should, in our opinion, give to the Conference an oppor-

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<sup>2</sup> For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.

tunity to complete its work expeditiously and in a highly favorable atmosphere of general agreement. You may add that, at the present stage of preparations, the United States finds itself in general agreement with the broad outlines of the reorganization of the inter-American system as reflected in the major drafts prepared by the Governing Board, although the position of this Government in regard to all details has not been finally determined. You should, of course, also express the Department's interest in knowing of any views or comments regarding the Conference which the Foreign Office may wish to make.

For your information, the Department has received numerous reports of rumors from various sources to the effect that the Conference might be postponed for a period of sixty days, i.e. until the middle of March, 1948. One reason given for this suggestion is the possibility of conflict with the United Nations Conference on Trade and Employment now meeting in Habana, Cuba <sup>3</sup>—a reason which appears to have some validity. The Department does not intend to take any initiative either favoring or opposing a postponement of the Conference. While not wishing to see the Conference postponed for any long time, the Department would, however, be sympathetic to any adjustment of the date which the Colombian Government might propose and which would avoid conflict with other important international meetings. So far the Colombian Government has given no indication that it will move for postponement unless some other government takes the initiative in proposing it.<sup>4</sup>

No final decision has yet been reached on the size or detailed composition of the American delegation. However, the limited facilities for housing and office space in Bogotá make it necessary to hold the delegation down to the minimum. It is expected that a delegation of about 70, including delegates, advisers, and clerical personnel, will have to suffice despite the broad scope of the agenda which will require a variety of technical specialists.

From time to time the Department will send you further information concerning the Bogotá Conference and the Department's plans therefor, and will be glad to provide specific comment in regard to any questions which the Foreign Office may raise with you and which is not covered by the information contained in this instruction or its attachments.

Very truly yours,

For the Acting Secretary of State:  
PAUL C. DANIELS

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<sup>3</sup> For documentation on this subject, see volume I.

<sup>4</sup> In circular telegram, December 5, 1947, not printed, the Acting Secretary of State informed diplomatic representatives in the American Republics that the Governing Board in agreement with duly authorized Colombian representative had postponed opening of Bogotá Conference to March 30, 1948 (710.J/12-547).

810.50/2-1948

*Memorandum by the Director, Office of Financial and Development Policy (Ness) to the Assistant Secretary of State for Economic Affairs (Thorp)*

[WASHINGTON,] February 19, 1948.

At the January 14 meeting of the Policy Committee of the Bogotá Conference, Mr. Armour<sup>1</sup> suggested that a statement from OFD on an affirmative economic program and policy of assistance to Latin America would be desirable.

Attached is a statement setting forth in general terms what might be the principal elements of such a program.

[Attachment]

## A POSITIVE PROGRAM OF UNITED STATES ASSISTANCE FOR LATIN AMERICA

### LATIN AMERICAN VIEWS ON U.S. ASSISTANCE

To the Latin American countries economic development is a foremost objective of national policy. At international conferences, at United Nations meetings and whenever the opportunity arises, they have actively sought measures to promote economic development. The U.S. has repeatedly stated its desire to assist in their development programs, but in their eyes performance by the U.S. has been disappointing. They have been increasingly dissatisfied over their economic relations with the U.S. as evidenced recently at the conference in Rio de Janeiro and at Havana<sup>2</sup> where their opposition has centered around the question of economic development. Their dissatisfaction has been increased by the U.S. occupation with the ERP and other foreign aid programs which they feel are crowding out consideration of their needs and will delay still further their plans.

The Latin American countries desire (1) financial assistance, (2) allocation of capital equipment and supplies, and (3) technical assistance. They are displeased over their inability to obtain capital financing, equipment and supplies, and technical assistance in amounts adequate to their needs.

The International Bank has made no loans to Latin America, although at Bretton Woods<sup>3</sup> there was inserted in the Articles of

<sup>1</sup> Norman Armour, Assistant Secretary of State for Political Affairs.

<sup>2</sup> For documentation on the Inter-American Conference for the Maintenance of Continental Peace and Security, Quitandinha, Brazil, August 15-September 2, 1947, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff. For documentation on the United Nations Conference on Trade and Employment, Habana, November 21, 1947-March 24, 1948, see *ibid.*, 1948, volume I.

<sup>3</sup> For documentation on the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1-22, 1944, see *ibid.*, 1944, vol. II, pp. 106 ff.



Agreement at the urging of the Latin Americans a clause providing "equitable consideration to projects for development and projects for reconstruction alike". At the annual meeting of the Boards of Governors of the International Monetary Fund and International Bank in London in September 1947, the Latin Americans because of disapproval of the Bank's policies planned to introduce a resolution affecting the Bank's administration. Due to U.S. efforts the statement finally presented by Mexico on behalf of the Latin American countries was fairly mild. Because of the Bank's limited funds, demands upon the Bank from Europe and other areas and the Bank's hesitancy in making loans to Latin America, it does not appear that the Bank will adequately meet the needs of these countries.

Export-Import Bank lending to Latin America has for the past year or two been on a restricted basis since the U.S. has regarded the International Bank as the principal agency to make long term loans for development purposes. If the Export-Import Bank were to embark upon a broad lending program in Latin America it would require additional lending authority from Congress.

#### A COMPREHENSIVE PROGRAM

Officers of the Department have indicated to the Latin Americans that there is to be no plan for Latin America comparable to that proposed for Western Europe. These statements do not mean, of course, that this country has or is to have no policy of assistance to Latin America. What is needed is not so much a new policy as more effective and integrated implementation of existing economic policy.

The economic and strategic importance of Latin America to the United States is generally accepted, as is the fact that the United States has considerable to gain from development in Latin America. The principle of hemispheric solidarity has gained widespread recognition in Latin America as well as in the United States. Congress and the American public have long felt a special relationship to Latin America. They have previously supported special aid to these countries.

While the U.S. has extended a considerable amount of aid to Latin America over the years, the assistance has been to a large extent uncoordinated and on a project by project basis. Moreover, the extent and nature of the aid have not received the public attention in Latin America which would come from a unified program presented as this country's contribution to development of the Latin American economy.

The amount of assistance that can be effectively utilized for development purposes in Latin America is quite small in contrast to that being planned for European recovery. Furthermore, the largest burden on the U.S. from European aid will occur during the next 15 months



and will be on a decreasing scale thereafter, whereas amounts to meet Latin American needs would be small at the outset and increase gradually, the total amounts still remaining comparatively small. As the program proceeds it is hoped that private investment will expand and that the more urgent needs of these countries will have been met.

A unified and positive program of assistance for Latin America should emphasize self-help, cooperation, and internal stabilization measures. This country's bargaining power, moreover, in obtaining an adequate *quid pro quo* would be increased if the various aid measures were combined into a single program. Thus the U.S. should insist upon a more favorable attitude toward private foreign investment. Better coordination between financial assistance, the lending of technical experts and of grants for cultural and other purposes would provide more effective utilization of this country's assistance. The entire program, furthermore, should be closely linked to this country's military needs and to cooperation by Latin America in this field.

At the Bogotá Conference the Secretary should express with emphasis the U.S. desire to assist, within its capacity, the American Republics in the prompt realization of a broad program of economic development. He should point out that during the war and the period since the end of hostilities, the U.S. was able to extend a considerable amount of aid to these countries in spite of urgent demands elsewhere. He should then state that it is now time to accelerate the economic development of the American Republics and that the U.S. stands ready to assist actively in this endeavor.

The Secretary should urge the speedy establishment of effective machinery, as proposed in the Basic Agreement, to increase not only the tempo but also the scope of development activities. He should suggest that the Inter American Economic and Social Council immediately undertake, with the cooperation of each country interested, to prepare a program for the development of the hemisphere based upon the economic potential of each country. He should pledge the full support of the U.S., emphasizing that the realization of the goal sought is to a large extent dependent upon concrete internal measures of self-help and upon the cooperation of all the countries. The immediate objective, which might be indicated by the Secretary, would be a 5-year development program covering the following points:\*

#### 1. *Expansion of Production*

The Council would consider the main types of production to be expanded, such as steel, textile, cereals, etc., and the suitability of the

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\*It is expected that the U.S. would be able to guide the preparation of the program through the technical assistance which it would provide. [Footnote in the source text.]

proposed expansion to the different areas. The Council should not attempt to prepare a blue print for Latin American production but should endeavor to determine in general terms what commodities the countries need most, which ones are most efficiently produced at home for domestic consumption and export, and which ones are obtained more economically by importation. The study would endeavor to establish realistic production targets for certain commodities for the 5-year period, taking into account costs, availability of capital equipment, technical and managerial skills and possible financing.

## 2. *Financing*

The Council would study possible means of financing the program including the availability of existing resources, both internal and external, and the maximum amount of debt each country should contract. The survey would suggest the amount of development which might be financed internally and the amount required from external sources including private investment, the International Bank, the U.S. and other governments. In this connection it is essential that measures be taken by the various countries which would encourage the inflow of private investment capital from abroad, and which would promote the domestic accumulation of capital and its retention at home.

## 3. *Economic and Financial Stabilization*

The Council would consider the internal economic and financial reforms which are necessary to the success of a development program, especially in the fields of currency, taxation, and fiscal administration. The Council would ask countries to undertake certain reforms, where necessary, if they wished to become eligible for assistance and to participate in the general program. The Council would recommend, in consultation with the International Monetary Fund, monetary and exchange measures which would facilitate international trade among the American Republics themselves and with the outside world. In particular, consideration would be given to the possibility of a common Latin American currency.

## 4. *Technical Assistance*

The Council would survey the types of technical assistance needed and would assist countries in obtaining qualified experts promptly, as contemplated by the Basic Agreement. An important type of assistance would be the provision of technical training at home or abroad for qualified individuals.

## 5. *Foreign Trade*

The Council would recommend commercial policies, in consultation with the International Trade Organization, important to an expansion of trade and to the entire development program.

## MEASURES TO BE UNDERTAKEN BY THE U.S.

The U.S. for its part in the program, and provided the Latin American countries accepted and carried out their part, would expect to undertake the following which should be stated by the Secretary:

1. To liberalize this country's lending program through the Export-Import Bank, both as to amount and as to the purpose and maturity of loans, in harmony with the overall program.
2. To support the establishment of Inter-American machinery whether under the Council or otherwise, to study development problems, serve as a center of information and facilitate development generally through such functions as may be assigned to it.
3. To expand this country's grants for health, sanitation, education and cultural purposes.
4. To make available a greater amount of technical aid and to this end to build up a group of experts in various fields who would be available to go to the different countries for periods of a few months to a year or more to work closely with local officials, as authorized by the recently enacted Mundt Bill.

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710.J/2-2748: Circular telegram

*The Secretary of State to American Diplomatic Officers in the Other American Republics Except Nicaragua*<sup>1</sup>

WASHINGTON, February 27, 1948—3 p. m.

Committee of Gov Bd, PAU, comprising representatives Chile, USA, Braz, Mex and Haiti, has submitted report for consideration Gov Bd Mar 8 on participation by Nicaragua in Bog Conf.<sup>2</sup>

Citing established principle that all Amer states may be represented as of right in all inter-American confs, Committee recommends that Gov Bd express opinion to Col Govt (which had requested Gov Bd's advice) that Nic should participate in Bog Conf, leaving to Col Govt decision as to how Govt of Nic would be invited or notified. Committee further expresses view that if Nic should attend Bog Conf, it would imply no obligation on any other govt to change its bilateral relations with present Nicaraguan regime.<sup>3</sup>

US representative supported above report along with representatives Haiti and Mex. Representatives Braz and Chile dissented under instructions.

If queried by FonOff, you may say US supports recommendations of Gov Bd Committee outlined above.

MARSHALL

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<sup>1</sup> Repeated to the Embassy in Nicaragua for information.

<sup>2</sup> For additional information on this subject, see the *Bulletin of the Pan American Union*, vol. 82, 1948, p. 284.

<sup>3</sup> For documentation on the question of United States recognition of Nicaragua, see pp. 99 ff.



710.J/3-548: Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics Except Nicaragua*<sup>1</sup>

SECRET

WASHINGTON, March 5, 1948—4 a. m.

At earliest appropriate opportunity, please communicate orally and informally to FonMin views of US Govt as stated below re item on agenda of Bog Conf entitled European Colonies in Americas (proposed by Guatemala):

US has many times expressed and demonstrated its devotion to general principle that peoples of dependent territories should be helped to attain increasing measure of self-govt. It is pointed out that this principle is incorporated in Chapter XI of Charter of United Nations to which all American States and those non-American states having colonies in the Americas, are parties.

While language Guatemalan project for Bog agenda item referred to above implies desirability self-govt of present colonial territories in Americas, adoption resolution of type embodied in that project might, under present circumstances, be subject to widespread and unfortunate misunderstanding. Certain these territories have for long been in dispute between American and non-American powers. US is party to none of those disputes, and continues, as in past, follow a scrupulously objective and impartial position in regard to claims of any parties. This Govt deeply regrets that recent developments with respect to certain disputed areas in Americas have assumed a contentious character. It will continue to be policy US to maintain that such disputes should be settled by peaceful means available to all parties and consistent with Charter UN.

US will, according to this long-standing policy, be unable to support any action by Inter-Amer Conf which, by appearing to advance claims of any one party in such disputes, would prejudice the opportunity for their equitable and peaceful solution in accordance with international law. In taking this position US is mindful of its obligations under Charter of UN which are specifically recognized and preserved in Treaty of Rio de Janeiro.<sup>2</sup>

MARSHALL.

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<sup>1</sup>Repeated to the Embassies in Nicaragua and the United Kingdom for information.

<sup>2</sup>Department of State Treaties and Other International Acts Series No. 1838, or 62 Stat. (pt. 2) 1681.

710.J/3-948

*Memorandum by the Secretary of State to Diplomatic Representatives  
in the American Republics*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, March 9, 1948.

The Ninth International Conference of American States, scheduled to convene in Bogotá, Colombia, on March 30, 1948, has four major tasks to accomplish.

1. *Reorganization of the Inter-American System.* The first is to reorganize and strengthen the procedures and agencies of the Inter-American System. The general agreement on this will be embodied in a basic Charter or Convention, somewhat comparable to the UN Charter. A draft of this document to serve as the basis of discussion at the Conference was prepared in 1945 and has been revised by a committee of the Governing Board of the Pan American Union, reviewed by the Board and transmitted to the Governments to serve as a basis of discussion at the Conference. Although representatives of various American Republics, including the United States, participated in this work, it has been made clear that their participation is without prejudice to the official positions of their governments at the Conference. A copy of this draft is attached (A).<sup>2</sup>

The principal problems raised by this draft are:

(1) The degree of centralization of authority and concentration of responsibility within the Pan American Union over the entire Inter-American System. This is a major feature of the draft. Under it the Pan American Union would be composed of the Governing Board, the Secretariat, and four Councils (Economic and Social, Defense, Cultural, and Juridical); would be given increased authority over the inter-American specialized organizations; and would be in effect the permanent central organ of the System (see Articles 27-29, 33-37, 46, and 70-71 of the draft);

(2) The relation of the organs and agencies of the inter-American System with those of the UN. The present draft contains only brief general provisions under which a variety of relationships can be worked out (see Articles 4e, 34, 50, and 75 of the draft). Whether it is desirable or possible to indicate the nature of the relationships in greater detail and what intervention, if any, the Pan American Union should have in the relations between other inter-American organizations and their world-wide counterparts are questions which will arise at the Conference;

(3) The nature of membership and participation in the System. The draft provides that all Republics are members as of right but recognizes that their membership carries obligations (see Articles 2,

<sup>1</sup> Copy transmitted in circular instruction, March 9, 1948. not printed.

<sup>2</sup> See draft organic pact of the Inter-American system submitted to the Conference by resolution of the Governing Board of the PAU at the meeting of February 4, 1948, in USDel Report, p. 95.



3 and 16). However, whether, for example, governments not recognized by a majority of the other Republics should attend conferences and whether there should be provision for suspension or deprivation of rights of membership for failure to fulfill obligations are questions which require further consideration.

(4) The desirability of including a set of general "principles" such as those now contained in the draft (pp. 2 and 3) as against a "Declaration" of the Rights and Duties of States annexed to the basic Charter, as originally envisaged by the Mexico City Conference, or a separate resolution on the subject;

(5) The method of financing the Pan American Union. This problem is raised particularly by the provision in the draft which would empower the Governing Board to fix and change both the formula for determining the contributions of the governments and the annual budget. Some interim action will be necessary at the Conference in order to provide for a quota system prior to the coming into force of the Pact, presumably as part of some general interim arrangement.

In addition to this basic Charter, part of the task of reorganizing the Inter-American System is to determine the future status of the approximately 28 existing inter-American specialized organizations, a list of which is attached (B). The major questions presented in this field are: Which agencies should be abolished? Which amalgamated with others? What definitive action can be taken by the Conference toward this end? (To alter the status of some organizations would require revision of the treaties.) Should the statutes or by-laws of the four major Councils referred to above be approved by the Conference or, as presently provided, should they be left to subsequent action and approval by the Pan American Union Governing Board?

2. *Economic Cooperation.* The second major task of the Conference, and probably the one to which the other Republics attach the most immediate importance, is the working out of bases for inter-American economic cooperation, especially a program whereby the United States will assist the Latin American countries in developing their economies and in meeting present compelling problems. Economic development has become a foremost objective of national policy throughout all of Latin America, and is the dominant force behind their policies and actions. Other and related problems are inflation, persistent trade deficits, dollar shortages, currency instability, non-convertibility of soft currencies, and inability to import goods in the kinds and quantities needed.

Latin Americans look to the United States as the natural as well as the only possible source for the capital, know-how, and equipment needed to make their development a reality. They keenly feel that in our plans to help meet the needs of other parts of the world we have given too little thought to theirs. Their dissatisfaction over the degree of U.S. assistance to them has led to a deterioration in relations with

the United States which has gained considerable momentum. If at Bogotá we should offer nothing constructive to help them, we may expect to see our general relations with Latin America undergo a further serious and rapid decline.

The Rio Conference of 1947 directed the Inter-American Economic and Social Council to prepare for Bogotá a draft basic agreement of inter-American economic cooperation. The Council has now completed its draft, except for a chapter on commercial policy which will be added at the Conference when the results of the ITO Habana Conference are known. Copies of the Council's draft are attached for your information (attachment C).<sup>3</sup> It is a working document for the Conference and does not in any way commit the United States, or any other government, in the position it will take at Bogotá. In a number of important respects in fact the draft agreement is at variance with the views of this Government. Reservations have been entered by the United States, particularly with respect to provisions relating to assurances and safeguards for American private enterprises abroad.

The draft agreement also fails in certain respects to meet the desires of the other Republics. Many of them, for example, want firm assurances of governmental financial assistance, provision for an effective development organization, and recognition, as a means of stimulating the flow of investment capital, of the principle that earnings should be taxed only in the country where the enterprise is located. With respect to the last point, the Colombian representative, with the obvious support of the others, has introduced a specific proposal, which will probably be strongly pressed at Bogotá.

All of these differences can probably be settled in a satisfactory manner if the United States can offer at Bogotá a constructive program of cooperation. We are attempting to develop such a program emphasising the role of private investment and self-help. The program under consideration would include the following elements:

- 1) An increase in the lending authority of Export-Import Bank to permit further loans to Latin America (the Bank has little lending authority un-utilized), and a liberalization in its loans, both as to amount and as to the purpose and maturity. This does not involve an appropriation.

- 2) Support, through the U.S. Representative on the International Bank, of a more sympathetic attitude on the Bank's part toward loans for Latin America.

- 3) Conclusion of the basic agreement referred to above, preferably in treaty form, on inter-American economic cooperation which,

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<sup>3</sup> For the draft agreement on inter-American economic cooperation approved at the plenary session of the Inter-American Economic and Social Council, February 19, 1948, see USDel Report, p. 142.



through increasing the assurances, and, if possible, the incentives, to private foreign investment should result in a larger flow of private capital from the United States to Latin America.

4) Assurance that Latin America will receive equitable treatment in the allocation of short-supply items which are subject to export control in this country.

5) An increase in the present program of technical and scientific cooperation extended by the United States to countries of Latin America.

6) Creation of an inter-American development organization or corporation to prepare sound projects for economic development. Consideration is being given to a suggestion that this corporation be provided with \$50 to \$100 million dollars of mixed United States-Latin American funds to make loans or guarantees for the realization of specially desirable projects for which other financing was unobtainable.

Such a program, it is believed, would accomplish the objective of the United States at Bogotá without laying on this country any heavy new burden. Its presentation would be accompanied by an orderly recapitulation of the economic assistance already extended by the United States to Latin America since the end of the war as proof that this country had not forsaken its neighbors to the South. Behind the scenes at the Conference the advantages of the ERP off-shore procurement might be stressed in talks with those countries which stand to benefit from it, provided the ERP had sufficiently advanced in the Congress by that time to warrant such use.

3. *Treaty on Pacific Settlement.* The third major task of the Conference is to conclude a comprehensive treaty on the procedures for the pacific settlement of disputes—procedures of conciliation, arbitration, judicial settlement, and the like. These are time-honored procedures embodied in a series of bilateral and multilateral treaties, uncoordinated and overlapping in some cases. The primary purposes of these acts or procedures is to provide mechanisms for the settlement of disputes among the 21 American Republics before they reach such a serious stage as to create a possible danger to the peace. Thus this treaty would complement the recently concluded Treaty of Reciprocal Assistance<sup>4</sup> and the two together constitute the inter-American peace and security system as a regional arrangement under the UN.

Two drafts of a treaty, coordinating and simplifying the entire pacific settlement machinery, have been prepared by the Inter-American Juridical Committee pursuant to a directive of the Mexico City Conference.<sup>5</sup> Both are enclosed (D and E).<sup>6</sup> The 1947 "Definitive

<sup>4</sup> Department of State Treaties and Other International Acts Series 1838, or 62 Stat. (pt. 2) 1681.

<sup>5</sup> For documentation on the inter-American conference on problems of war and peace, held at Mexico City, February 21–March 8, 1945, see *Foreign Relations*, 1945, vol. ix, pp. 1 ff.

<sup>6</sup> For the 1945 and 1947 drafts of treaty on pacific settlement of disputes, formulated by the Inter-American Juridical Committee, see USDel Report, pp. 121–141.

Project" was intended by the Juridical Committee to supersede the previous draft as the basis of discussion at the Conference. However, since there are wide divergencies between the two drafts, it is possible that both will be used as a basis of discussion at the Conference and, therefore, copies of both are enclosed.

Principal problems to be considered in connection with the pacific settlement procedures include:

(1) Whether the parties should be obligated to accept compulsory arbitration for all disputes justiciable and nonjusticiable. Although such an obligation is included in the 1947 draft, it is felt that this Government should oppose it;

(2) Whether there should be an obligation to resort always to and only to the procedures specified in the treaty in any controversy which cannot be settled by negotiation, as against an obligation to resort either to those or to other procedures of the parties' own choice. It is our present view that the first alternative would make the pacific settlement system too rigid and that, from a practical point of view, a more flexible system centered around the procedure of consultation would be more desirable;

(3) Whether the Pan American Union Governing Board or the Meeting of Ministers of Foreign Affairs should be given the authority to investigate any dispute and to recommend specific terms of settlement, on the analogy of similar authority given the Security Council in the UN Charter, or whether its power should be limited to good offices and mediation and to recommending procedures of settlement.

4. *Other Matters.* The agenda of the Conference likewise includes a number of items primarily of a juridical, political and social nature. The following are matters falling in the first two categories:

*a. Declaration of the Rights and Duties of States.* It was agreed at the Mexico City Conference that such a Declaration would be annexed to the basic Charter for the Inter-American System, and a fairly acceptable draft has been prepared by a Committee of the Pan American Union Governing Board.<sup>7</sup> However, most of the proposals from the draft which are generally acceptable have now been incorporated in the Preamble of the basic Charter and a number of Latin American Republics have suggested that a separate Declaration is not necessary. This position appears satisfactory, but if a separate document should be urged at the Conference, we would favor a Declaration rather than a binding Convention.

*b. Recognition of Governments.* The Ecuadoran Government has proposed a convention to abolish recognition of *de facto* governments. Guatemala has proposed that the Conference agree that the Republics will not recognize "anti-democratic" regimes. The present stage of preparatory thinking on this problem is that the United States should favor a resolution stating that the continuance of diplomatic relations among the American States is desirable and that the fact that relations

<sup>7</sup> USDel Report, p. 112.

are established or maintained with a given government does not imply approval of the internal policies of that government;<sup>8</sup>

*c. European Colonies in the Americas.* Guatemala has proposed that the Conference approve a resolution to the effect that the American Republics desire that the status of colonies in the Americas be terminated. The U.S. delegation will not favor any such action and will avoid taking any position that would favor either party to any existing disputes over European possessions.<sup>9</sup> The problem is highlighted by the recent tension between the United Kingdom, Argentina and Chile over the Falkland Islands and the Antarctic regions.<sup>10</sup>

Topics which fall generally under the head of "social matters" include the following:

(a) *Charter of Social Guarantees.* A draft of such a document has been prepared by the Inter-American Juridical Committee<sup>11</sup> pursuant to a directive of the Mexico City Conference. It is unsatisfactory from the U.S. point of view and we intend to oppose definitive Conference action and propose reference of the draft to the Inter-American Economic and Social Council for study in consultation with the ILO;

(b) *Declaration of the Rights and Duties of Man.* The Mexico City Conference also proposed that a declaration of human rights be annexed to the basic Charter along with the Declaration of the Rights and Duties of States discussed above. A draft has been prepared also by the Inter-American Juridical Committee.<sup>12</sup> However, since the Mexico City Conference, the UN has established a Commission on Human Rights, which is preparing both a declaration and a covenant for adoption by all UN members and a problem thus arises of coordinating action on these matters in both the UN and the Inter-American System. Furthermore, the present draft contains certain controversial provisions which require careful consideration. On the other hand, it will be necessary to assure the other American Republics of our continued interest in the promotion of human rights;

For these reasons, it is our present feeling that the United States should not favor the adoption of a convention or final declaration by the Bogotá Conference, but should agree to a set of general principles which would then be referred to the Inter-American Juridical Council, which is to be established at Bogotá, for the development of a definitive document;

(c) An item, entitled "the development and improvement of inter-American social services," has been placed on the agenda by Haiti, but no specific proposals have yet been submitted under it.

<sup>8</sup> See PPS/24, March 15, *infra*; for summary statement of United States policy, see USDel Report, p. 82.

<sup>9</sup> For summary statement on United States attitude, see USDel Report, p. 85.

<sup>10</sup> For documentation on these subjects, see volume I.

<sup>11</sup> USDel Report, p. 153.

<sup>12</sup> *Ibid.*, p. 115.



800.01/6-843

*Paper Prepared by the Policy Planning Staff*<sup>1</sup>CONFIDENTIAL  
PPS/24

WASHINGTON, March 15, 1948.

Problem: To establish the policy of the Department regarding the recognition of new governments

*Analysis:*

1. The problem of recognition of governments has been placed on the agenda of the forthcoming 9th International Conference of American States at the initiative of the Ecuadoran Government in proposing a convention to eliminate recognition of *de facto* governments, and of the Guatemalan Government in proposing an agreement not to recognize "anti-democratic" regimes. This question is under study in the Department, and the time is opportune to establish our recognition policy on a worldwide basis.

2. A study of United States policy in the recognition of new governments prepared in the Department last year by RE<sup>2</sup> states that what is referred to as our traditional policy of recognition of new governments on the *de facto* principle has been subject to a wide variation of interpretation during the past century and a half. The *de facto* principle, first enunciated by Secretary of State Jefferson stated "It accords with our principles to acknowledge any government to be rightful which is formed by the will of the nation, substantially declared. . . . The will of the nation is the only thing essential to be regarded." A Department instruction in 1900 expressed an extreme and simplified interpretation of the *de facto* principle in stating that United States policy was "to base the recognition of a foreign government solely on its *de facto* ability to hold the reins of administrative power". Ability and willingness of the *de facto* government to discharge international obligations has been one of the principles upon which U.S. recognition has been based for many years. At some periods such as those of our own Civil War and during the Wilson Administration a requirement of "constitutionality" was a factor; which gave rise to the problem of moral censure or the use of non-recognition as a political weapon. According to the RE memorandum, the consensus is that non-recognition has not proved very effective as a political weapon.

<sup>1</sup> Approved by the Secretary of State. Copy transmitted in a circular instruction to diplomatic representatives in the American Republics (not printed), June 8, 1948 which noted that "a Resolution on the 'Exercise of the Right to Continuity of Diplomatic Relations' was approved as Article XXXIII of the Final Act of the Ninth International Conference of American States held recently in Bogotá. This Resolution is in harmony with the policy set forth in the Policy Planning Staff paper."

<sup>2</sup> Not printed.

3. The Ecuadoran proposal which is to be considered in the Bogotá Conference recommends that the custom of recognizing *de facto* governments in the system of reciprocal relations of the American Republics be abolished, and that the establishment of a *de facto* government in any one of them shall not affect the normality or the continuity of pre-existing diplomatic relations between the State in which the change of regime has occurred and the other States. This proposal is in effect a restatement of the Estrada Doctrine of Mexico. The Mexican Government in 1930 instructed its diplomatic representatives that it was issuing no declarations in the sense of grants of recognition; and that the Government of Mexico would confine itself to the maintenance or withdrawal, as it might deem advisable, of its diplomatic agents, and to the continued acceptance, also when it might deem advisable, of such similar accredited diplomatic agents as the respective nations may have in Mexico.

The Guatemalan proposal recommends that the American Republics refrain from granting recognition to and maintaining relations with anti-democratic regimes which, in the future, may establish themselves in any of the countries of the continent, in particular with regimes which may result from a *coup d'état* against legitimately established governments of a democratic character; and, as a specific rule for characterizing such regimes, the extent to which the popular will in the particular country may have contributed to their establishment, according to the free judgment of each State. The Inter-American Juridical Committee studied the Guatemalan proposal and expressed the opinion, with the member of the United States dissenting, that the proposal is not to be recommended for approval.

4. The Bogotá Policy Committee has studied the questions of recognition and establishment and maintenance of diplomatic relations. It has recommended that the United States should support or present for adoption by the Conference a resolution stating that the continuity of diplomatic relations among the American States is desirable and that the establishment or maintenance of diplomatic relations with a given government does not imply approval of the internal policy of that government. The Bogotá Policy Committee also recommends that the United States should oppose any action by the Conference looking toward the formulation of a convention on recognition and, specifically, should oppose the Ecuadoran proposal that the practice of recognizing *de facto* governments be abolished by convention. In its studies of the question, the Bogotá Policy Committee considered the following principal criteria which might apply in deciding whether to establish relations with a government of another American State established by force:

- (a) the effective control by the regime of the national territory and of the administration of the State, and
- (b) the ability of the regime to discharge the international obligations of the State.

Arguments in favor of such a position are that it would eliminate many of the interruptions in diplomatic relations, particularly at times when the presence of a diplomatic mission is highly useful and desirable; that it would amount to a frank admission that attempts to force a *de facto* government to follow desirable internal policies by withholding recognition have generally failed; that by discouraging refusal to recognize a government it would emphasize the importance of developing and relying upon satisfactory multilateral procedure (including the breaking of diplomatic relations) when the community of States felt it necessary and justifiable to enforce any given rule of law; that it would clarify U.S. policy by placing on a firm basis a practice which has at times been expressed and followed by this Government (for example recently with respect to Eastern European countries) but from which it has frequently deviated in the Western Hemisphere; and that it would be welcomed by many of the Latin American countries as tending in the general direction of the Estrada Doctrine and so eliminate the basis for charges that U.S. recognition practice frequently constitutes intervention.

Arguments against the position are that it would constitute a complete retreat from the position which this Government has at various times taken in requiring an indication of popular support for *de facto* governments before recognition, and would be interpreted as a weakening of our support for democratic principles; that it would encourage revolutions even by anti-democratic and undesirable groups in the knowledge that recognition would be automatic upon their effective seizure of control; that the right of individual moral suasion by refusal of recognition should be preserved; and that it would be undesirable for the United States to assume even an implied commitment to act in conformity with any set formula.

Whether and when recognition will be accorded is a matter within the discretion of the recognizing State. (*Digest of International Law*—Hackworth) Recognition has occasionally been extended through joint action by a number of governments, but it has been the usual practice of the United States to refrain from participating in such joint action. (*Digest of International Law*—Hackworth)

President Truman stated in his Navy Day Address in 1945: "We shall refuse to recognize any government imposed upon any nation by the force of any foreign power. In some cases it may be impossible to prevent forceful imposition of such a government. But the United States will not recognize any such government."



Among the reasons for our non-recognition of the Soviet regime, Secretary of State Colby included:

- (1) that the regime represented only a small minority of the Russian people and retained control by oppressive means;
- (2) that it was based upon the negation of principles of honor and good faith and of the usages of international law;
- (3) that there could be no basis for free relations with the agents of a regime which engaged in intrigue and propaganda to bring about the overthrow of peaceful governments.

Secretary of State Hughes emphasized that non-recognition of the Soviet Union was based not on "legitunist" arguments but primarily on the demonstrated unwillingness of the Soviet Government to honor its international obligations.

In connection with the recognition of governments in the last few years, stress has been placed upon the holding of free and unfettered elections, the participation of representatives of various parties in the government, assurances of the granting of freedom of the press, speech, religion, association, etc. (See the report of the Crimean Conference of February 11, 1945; the Potsdam Communiqué of August 2, 1945; and the Communiqué on the Moscow Conference of December 27, 1945.<sup>3</sup>)

Recognition of a government also has legal consequences of great importance, which affect the protection of citizens and interests of the recognizing government and which have a direct bearing on procedures that flow from international relationships.

#### *Conclusions:*

6. The Department should establish a recognition policy on a world-wide basis. The fundamental interests of the United States should be the primary consideration in formulating the policy; and the policy should be flexible enough to meet changing conditions and to permit of adjustment in application to a given country at a given time.

7. Non-recognition as a political weapon should not be a principal determinant of our policy with respect to the recognition of a new government, but we should act in given cases so as to best serve U.S. interests by seeking to promote international order and stability. There are clear advantages in the withholding of recognition when a regime has been imposed by force from without or clearly cannot be assumed to have the support of the people of the country, or has refused to live up to its international obligations including intentional disregard of U.S. rights and interests, or would clearly constitute an inter-

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<sup>3</sup> *Foreign Relations*, 1945, The Conferences at Malta and Yalta, p. 968; *Foreign Relations*, 1945, The Conference of Berlin (The Potsdam Conference), vol. II, p. 1499; and *Foreign Relations*, 1945, vol. II, p. 815.

national menace because of its intent to upset the governments of free countries or to adopt similar policies. The benefit of the doubt could be given to regimes which give evidence of *de facto* control and of popular support, if such regimes are friendly to the United States or at least not hostile to it and if they show signs of being able to survive.

8. The question of breaking diplomatic relations is a separate one, although closely related to recognition policy.

*Recommendations:*

9. The recognition policy of the Department should be based upon the three following factors, any or all of which would be applied in a given case according to U.S. national interests:

- (a) *de facto* control of the territory and the administrative machinery of State, including the maintenance of public order;
- (b) the ability and willingness of a government to discharge its international obligations;
- (c) general acquiescence of the people of a country in the government in power.

The foregoing three factors should not preclude the recognition by the United States of governments in exile, which recognition should be based almost exclusively on political considerations and the national interest.

10. Recognition of a government by the United States should imply neither approval nor disapproval of the policies of that government with respect to strictly domestic affairs.

11. Recognition should not be withheld as a political weapon or to express moral censure except in extreme cases when U.S. national interests would be served thereby.

12. The legal consequences of recognition, particularly as they affect the protection of United States citizens and interests, should be considered in connection with decisions about the recognition of any government by the United States.

13. The Department should express willingness to consult in the inter-American system or in the United Nations regarding questions of recognition, but should retain freedom of decision and should not bind itself to act in accordance with any joint formula.

14. Any resolution regarding recognition to be presented by the United States Delegation at the Bogotá Conference, and any position taken by the Delegation, should not be at variance with the foregoing conclusions and recommendations.



710.J/3-1948

*Memorandum by the Acting Secretary of State to President Truman*<sup>1</sup>

WASHINGTON, March 19, 1948.

Subject: United States Delegation to the Ninth International Conference of American States to be Convened at Bogotá, Colombia  
March 30, 1948.

This Government, as a member of the Pan American Union and the Inter-American System, has accepted the invitation of the Colombian Government to participate in the subject Conference, at which it is anticipated all of the American Republics will be represented.

In view of the importance of this meeting at which a number of matters relating to the future of the Inter-American System as well as economic cooperation between the countries of this hemisphere will be discussed, it is important that this Government be strongly represented. After consultation with other offices of the Government, Congressional leaders and individuals who are prominent in the field of Inter-American affairs, I am submitting herewith the attached list of persons who are available and whom I recommend to represent the United States at this Conference.<sup>2</sup> These delegates will be accompanied by a qualified group of advisers and a technical and administrative staff.

In this connection I should mention that the Delegation does not contain any representative from outside of the Government owing to the highly complex nature of the agenda and the limited facilities at Bogotá. Every effort has been made, however, through individual discussions and consultative meetings, to obtain the advice and opinions of representative groups and prominent individuals in connection with the formulation of the United States positions at this Meeting.

I shall appreciate your informing me whether you approve the designation of the individuals set forth in the attached list to serve in the capacities as indicated thereon.

N[ORMAN] A[RMOUR]

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<sup>1</sup> Marginal notation: "Approved. Harry S. Truman, March 19, 1948".

<sup>2</sup> For list of members of the United States and other Delegations at this Conference, see USDel Report, pp. 277 ff.

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710.J/3-2248 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

CONFIDENTIAL

BOGOTÁ, March 22, 1948—noon.

137. There are numerous indications that Communists and left wing Liberals will endeavor to sabotage inter-American Conference in order

to embarrass Colombian Government and create difficulties among American republics. The Colombian Minister Foreign Affairs who has just been replaced has twice been pelted with eggs during the last several weeks. A riotous group identified as Liberals last Friday attacked the Presidential auto in which the Ecuadorian Ambassador was riding after presentation of credentials. Considerable damage was done to the car despite police escort. Posters have appeared around town condemning Pan-American conference.

Foreign Minister Saturday night gave dinner to Diplomatic Corps at Palacio San Carlos. Streets leading to Palacio were heavily guarded by police and soldiers. Nevertheless a hostile crowd congregated outside the Palacio. Embassy has received numerous reports Communists would demonstrate against incoming delegations particularly American.

Recent replacement of Coalition Cabinet by an all Conservative Cabinet may have effect of increasing overt opposition to government and efforts to sabotage conference.

BEAULAC

## II. PROCEEDINGS OF THE CONFERENCE

710.J/3-3048: Telegram

*The Secretary of State to the Acting Secretary of State*

BOGOTÁ, March 30, 1948.

Delbog 5. Daily Report No. 1. Preliminary meeting heads delegations 11:00 a. m. elected Colombian Foreign Minister<sup>1</sup> conference president, US and others seconding Mexican nomination; appointed credentials committee including US; determined order precedence with US sixth; and agreed on following committee structure:

Committee 1—Organic pact except part three

Committee 2—Part three organic pact and specialized organizations

Committee 3—Pacific settlement and collective defense

Committee 4—Economic matters

Committee 5—Social matters including statutes commission women

Committee 6—Juridical-political matters

2. The following new proposals approved for submission to conference; Mexican resolution regarding establishment institute of investigation and development as autonomous specialized organization to carry out Chapter Two of draft economic agreement; Mexican resolution on investigation economic conditions of working women; US

<sup>1</sup> Laureano Gómez.

resolutions on cultural cooperation, social services and travel; Bolivian resolutions on elimination of passports, equal treatment of workers, reduction of frontier barriers, and desirability of Bolivian-Amazon railway; Dominican proposal regarding adherence ICJ.

3. Marshall<sup>2</sup> raised question as to whether present agenda permits discussion problems foreign-inspired subversive activities directed against institutions and peace and security of American Republics stating he was told that this was subject of considerable concern to countries represented. Meeting voted affirmative answer.

4. Inaugural session this p. m. opened by President Ospina Perez<sup>3</sup> who stressed need economic cooperation and suggested possible adoption basic human rights as "contractual obligation."

Chairman Brazilian delegation Neves da Fontoura referred to two conflicting political conceptions in world, and urged democracies safeguard Christian civilization. Suggested creation international court for protection individual liberties. Stressed economic cooperation for industrialization. Urged partial relinquishment individual initiative to state in economic sphere and gradual transfer federal principle of government from national to universal plane.

MARSHALL

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<sup>2</sup> Secretary of State George C. Marshall, Chairman, United States Delegation.

<sup>3</sup> Mariano Ospina Perez, President of Colombia.

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710.J/3-3148 : Telegram

*The Secretary of State to the Acting Secretary of State*

Bogotá, March 31, 1948.

Delbog 11. Daily Report Number 2. Extensive discussion credentials committee re acceptance Nicaraguan credentials. Guatemala objected, Panama and Haiti favored, but made clear acceptance not imply recognition. Venezuela made similar statement plenary session. Brazil favored, stating question recognition not relevant. Argentina favored since invitation is to states not governments. US merely stated no objection.

First plenary this p. m. accepted credentials report.

Gómez, Colombian Foreign Minister, Torres Bodet, Mexican Foreign Minister, Hernández, head Chilean delegation, and Price, assistant Syg UN, spoke plenary.

Bodet stressed following points: pact reorganization IA system must be all embracing constitution of real union of states. To date IA system has been strong only in times of external crisis on economic matters. Continuation of economic interdependence based on exportation only of raw materials by some countries and manufactured articles by others



means loss real economic independence. Agreement on free access raw materials must be accompanied by fair payment, and free access capital goods and inventions must strengthen IA ECOSOC to give technical aid fight financial instability and finance long term projects. Development America no less urgent than reconstruction Europe since this is one world and now wilderness reigns over most of potential wealth this hemisphere. On universal cooperation IA system must not be regional bloc, must avoid isolationism and each republic must recognize duty to mankind as bridge of world conciliation and hope.

Hernández stated world divided two camps and reiterated Chile's support Democracies. IA system should be strengthened as refuge in case UN becomes bureaucratic or ineffective and should settle all political controversies without necessity reference UN. Referred to necessity economic cooperation and to Chile's incontestable rights in Antarctica.

Price emphasized opportunities American representatives help rest of world and importance reciprocal relationships IA system and UN citing as examples interim committee consideration IA pacific settlement machinery and creation ECLA.

MARSHALL

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710.J/4-148 : Telegram

*The Secretary of State to the Acting  
Secretary of State*

BOGOTÁ, April 1, 1948.

Delbog 17. Daily Report No. 3. Following elected chairman, vice chairman and *rapporteur* respectively of indicated committees:

- Committee I—Mexico, Panama, Brazil
- Committee II—Chile, El Salvador, Argentina
- Committee III—Peru; election postponed other officers
- Committee IV—Venezuela, Guatemala, US
- Committee V—Argentina, Chile, Haiti
- Committee VI—Dominican Republic, Honduras, Cuba

Committee I established three sub-committees:

(1) Preamble and principles organic pact; (2) nature inter-American system; (3) miscellaneous provisions. US member first two.

Committee II established three sub-committees: (1) IA Assemblies, organization PAU and relations with UN; (2) specialized organizations; (3) financing.



At plenary this p. m. after formal speech Secretary Marshall made extemporaneous remarks stating desire speak personally and directly.<sup>1</sup> He emphasized importance not losing sight of overall situation in course of detailed discussions. Stated his awareness that references in many of statements made and to be made were to US directly or indirectly. Pointed out that there is limited understanding of tremendous responsibilities on US government and great burden on US people, citing as example present necessity expenditure additional billions for armed forces. He emphasized that OAR benefit in peace, security and economic development as much as US from these efforts but that burden rests on US. Added that to reasonable degree he can understand views OAR since as Chief Staff during war he was under multitude of pressures from abroad and within US for dispersal armed forces. If he had not resisted pressures war would have lasted longer and postwar situation been different. He urged that OAR bear in mind that with our great responsibilities US must proceed with great wisdom. Concluded by stating that mural of Simon Bolivar covering wall meeting room brought to mind bloody capture Okinawa, with great US losses, where US forces were under leadership of General Simon Bolivar Buckner who gave life in the battle. Cited this as symbolic of common purposes.

Bramuglia, Argentina, followed with lengthy speech of routine character. Emphasized Pan-American cooperation stating that Argentina desires adhere to continental solidarity. Added there must be joint action without limiting principle of sovereignty. Stated that America must not retrogress to colonial status and can not permit "foreign hands in American continent". Emphasized necessity of hemispheric peace and solidarity.

MARSHALL

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<sup>1</sup> For text, see USDel Report, p. 309, or the Department of State *Bulletin*, April 11, 1948, p. 469.

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Lot 60D665, Box 15280

*Memorandum of Conversation, by the Ambassador in  
Brazil (Pawley<sup>1</sup>)*

SECRET

Bogotá, April 2, 1948.

Participants: Secretary Marshall  
Ambassador Joao Neves da Fontoura  
Ambassador William D. Pawley  
Major Vernon Walters<sup>2</sup>

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<sup>1</sup> Delegate of the United States.

<sup>2</sup> Assistant Military Attaché in Brazil.

Ambassador Neves da Fontoura stated that he was happy to inform Secretary Marshall that by order of the President of Brazil, His Excellency, General Eurico Gaspar Dutra, and by instructions from Foreign Minister Raul Fernandes, and by his own feelings, the Brazilian Delegation would follow closely the United States Delegation and that every effort would be made to have the points of view of both delegations coincide.

#### *Economic:*

Ambassador Neves da Fontoura then stated that there were several points he would like to discuss with Secretary Marshall: first, that he had listened with great interest to Secretary Marshall's speech and that he fully understood the burden on the United States' economy by the ERP and fully appreciated the tremendous load being borne by the American people in all corners of the world and that Brazil had no desire to further increase this burden.

He stated that Brazil, although part of Latin America, is like the United States in that it has a different language and culture; nevertheless, the Brazilian Delegation would be called upon frequently to go along with other Latin American Delegations. He felt that in this manner they could be a valuable contact between the Latin American Delegations and the United States Delegation, assisting in smoothing out difficulties that might arise and generally contributing to the success of the Conference.

The Ambassador stated that he understood thoroughly that portion of the Secretary's speech which referred to the desirability of providing a satisfactory climate for private capital which would assist in the development of the economy of the Latin American nations.

#### *Petroleum:*

The Ambassador next discussed petroleum. He stated that he had played an important part in the drafting of the Constitution of Brazil, particularly with reference to that part which deals with the development of petroleum and other such resources. He went on to say that a new law had been presented by the President to the Brazilian Congress.<sup>3</sup> He stated that the President and other members of the Cabinet had submitted to the Congress some modifications to this proposed oil legislation, in the hope that when the law was approved by Congress it would be more attractive to American capital.

Secretary Marshall explained the importance of having petroleum in case of an emergency, and stated that this fortunately coincides with Brazil's interest. Secretary Marshall explained to the Ambassador some of the danger of having to depend upon petroleum from the

<sup>3</sup> For documentation on this subject, see pp. 352 ff.

Middle East, and hoped that adequate measures would be taken to further develop the petroleum industry in this hemisphere.

Secretary Marshall stated that the United States would not be able, in the case of another emergency, to render the assistance with reference to petroleum that had been rendered by the United States in the recent war.

Ambassador Neves da Fontoura replied that it was the desire of the President of Brazil and the Brazilian Government to do everything within their power to facilitate the development of this resource with the assistance of foreign capital, within the scope of the Brazilian Constitution.

Ambassador Pawley pointed out that the Brazilian Constitution provided all of the necessary facilities for foreign capital to assist in the development of petroleum, but that the petroleum project now under consideration by the Brazilian Congress would in no way meet the requirements of American private capital.

#### *Communism:*

The next subject brought up by Ambassador Neves da Fontoura was communism. He stated that the Brazilian Government had found a certain reluctance on the part of the Argentine Government to mention communism by name. He stated that the Brazilian Delegation was prepared to support whatever resolution was favored by the United States Government.

#### *Pan American Union:*

Ambassador Neves da Fontoura stated that he would like to know the United States Delegation's position with regard to the Argentine Government's desire to remove the Inter-American Defense Board from the Pan-American Union and set it up as a separate entity.

Secretary Marshall then asked Ambassador Neves da Fontoura if he knew what prompted the Argentine Government to take this position. The Ambassador replied that he felt that the Argentine Delegation had taken this position because they were usually "against everything" and because they desired to make of the Pan-American Union merely an administrative body, taking from it all political powers. He further stated that the Argentines did not wish to support a Pan-American Union that might become a "super-State". The Ambassador stated that he felt that the Pan-American Union should be strengthened and that the Inter-American Defense Board should be included in the Organic Pact.

Ambassador Neves da Fontoura concluded by reiterating the Brazilian Delegation's solidarity with the United States Delegation, and he said that he and his colleagues would keep in close contact with the United States Delegation throughout the Conference.



710.J/4-248 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 2, 1948.

Delbog 23. Daily Report Number 4. Committee 1. Principal debate related deletion principles rights and duties states from preamble organic pact and inclusion as substantive articles. Ten speakers. Majority favored. Majority opposed grant political powers governing board. Panama and Chile suggesting creation provisional organ consultation under Rio treaty outside Washington. Considerable interest also evident in new name to replace IA system.

Committee 2. Principal issue related question position military council vis-à-vis governing board. Argentina in support their motion create separate sub-committee deal with military council strongly urged complete separation and special status for council since otherwise board would have political supervisory powers and appearance of superstate. Suggested establishment council by protocol Rio treaty and deletion corresponding articles organic pact. Argentine motion create separate sub-committee defeated, US voting against.

Committee 3. Elected Ecuador vice chairman, Uruguay *rapporteur*. Established subcommittees on pacific settlement and collective defense. US on both.

Committee 4. Divided economic agreement among four subcommittees: (1) Chapters 1, 9, 11, 12; (2) Chapters 2 through 5; (3) Chapters 7, 8; (4) Chapters 6, 10. Decided hear statements McCloy and Martin <sup>1</sup> Monday.

Committee 6. Cuba resigned as *rapporteur*. Replaced by Colombia. Three sub-committees established: (1) Human rights (2) Recognition and defense of democracy (3) European colonies. US on all three.

BEAULAC

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<sup>1</sup> John J. McCloy, President of the International Bank for Reconstruction and Development; William McC. Martin, Jr., President of the Export-Import Bank of Washington.

714.44A15/4-348 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

SECRET

Bogotá, April 3, 1948—11 p. m.

Delbog 28. In conversation this morning between Garcia Granados of Guatemala and Daniels,<sup>1</sup> former expressed following views re colonial problem:

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<sup>1</sup> Jorge Garcia Granados, Vice Chairman of the Guatemalan Delegation; Paul C. Daniels, Director, Office of American Republic Affairs and Delegate of the United States.



1. Guatemala is prepared to reestablish normal conditions in relations with Belize,<sup>2</sup> and specifically to reopen the frontier, as soon as all British troops which recently arrived there are completely withdrawn.

2. Guatemala hoped that there would be no change in political status of British Honduras pending settlement of dispute, and that for time being no action would be taken by British Government in introducing refugees or other colonists.

3. Guatemala was still willing to have Belize dispute arbitrated by International Court of Justice, but not merely on interpretation of treaty. Guatemala felt all circumstances leading to conclusion of treaty in first instance should be taken into account and arbitration should be on basis *ex aequo et bono*.

Garcia Granados added that his government did not desire to cause trouble with Great Britain in regard to their proposal regarding European colonies, but that there was an overwhelming support of Guatemalan thesis among American Republics. He felt that if British could take positive action and give adequate assurances along foregoing lines it would be much easier for conference to avoid taking action by resolution or otherwise objectionable to Great Britain.

Daniels reiterated Department's position as set forth in recent memorandum to Guatemalan Embassy and other documents.

Please approach British Government urgently and urge action and assurances in line with Guatemalan suggestions listed above.<sup>3</sup> Any such assurances obtained by US in confidence from British would be held by US here and used to the best of our ability in handling colonial problem here in hope of reaching solution which can be unanimously supported by twenty-one American Republics and at same time reasonably acceptable to British. It is believed to be in British interest to avoid open disagreement with American Republics so far as possible.

Garcia Granados further suggested that conference might create a permanent commission of American States to continue study of European colonial problem in western hemisphere. Before making any commitments would welcome expression Department's views.<sup>4</sup>

BEAULAC

<sup>2</sup> For documentation on the Belize controversy, see pp. 81 ff.

<sup>3</sup> The Acting Secretary reported in Bogdel 43, April 6, 5 p. m.: "agreement obtained from British Embassy to urge British Govt to take action and give assurances in line with three Guatemalan suggestions but Embassy was not optimistic concerning probable response."

<sup>4</sup> Acting Secretary of State reported in Bogdel 42, April 6, 5 p. m., the Department's disapproval of a proposal that the Conference create a permanent commission of American States to continue study of the European colonial problem in Western Hemisphere and hope that such action could be discouraged (710.J/4-648).

710.J/4-448 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

RESTRICTED

BOGOTÁ, April 4, 1948—9 p. m.

Bogdel 32. Weekly Summary No. 1. First week of conference principally occupied with formal opening ceremonies, organization of working committees and preliminary exchange of views with substantive debate just beginning.

Highlights of sessions were speeches by Marshall and Torres Bodet (Mexico). Torres, with eloquence and impassioned plea for aid for extensive economic development Latin America, probably epitomized feeling majority other delegations and was accorded enthusiastic reception. Marshall's straightforward speech should help temper ground swell extensive direct aid program. In substantive discussion there is growing emphasis on importance organic pact reorganization of IA system and initial developing issue is whether PAU Gov Board should have political powers, heightened by Argentine reference to fear of "super state". This seems to represent belated awareness of significance grant of political powers to board as provisional consultative organ under Rio treaty. Issue being stated in extreme terms. US position is (1) no retreat from powers granted in Rio treaty; (2) similar use of board as consultative organ in pacific settlement machinery; and (3) any other political powers granted board to be specifically delimited by treaty. As previously reported Argentina also pressing for military council completely independent from PAU.

Communism and control subversive activities not yet discussed in Committees. In private discussions Chile appears taking lead for strong action. Argentina indicated view problem better handled by individual countries, fearing extensive discussion in conference might be counter-productive. Guatemala and Venezuela not expected favor strong action. Initial Mexican views inclined favor sufficiently general language to assure unanimity and minimum discussion newspaper accounts building on Marshall's inquiry as to whether agenda permitted discussion subversive activities, have created erroneous impression some quarters that US energetically soliciting support predetermined plan for strong anti-Communist action.

Delegation economic group under Harriman<sup>1</sup> has reviewed and tightened up draft economic agreement. Revised text Chapter 4 being transmitted separately and full revised text airmail.

On question European colonies Guatemala expressed certainty of overwhelming support for resolution stating desire American repre-

<sup>1</sup> W. Averell Harriman, Secretary of Commerce and United States Delegate.

sentatives termination colonial status and suggested conference create permanent commission for continuous study of European colonial problem in hemisphere.

Route this summary PL, ADA and Vandenberg and Eaton.<sup>2</sup>

BEAULAC

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<sup>2</sup> Senator Arthur H. Vandenberg and Congressman Charles A. Eaton.

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710.J/4-648: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 6, 1948.

Delbog 35. Daily Report No. 5. Plenary session speakers: Paz Campero head Bolivian Delegation, Vasconcellos Foreign Minister Paraguay and Parra Velasco Foreign Minister Ecuador. First two gave routine speeches. None gave indication that views substantially modified by Secretary's speech. Vasconcellos stressed fight waged by Morinigo Government on behalf democratic principles against "Muskovite forces" in recent civil war.<sup>1</sup> In economic matters urged special privileges beyond Most Favored Nation treatment for Paraguay and Bolivia in view padlocked situation with limited access outside.

Parra stressed following points: (1) Nothing in organic pact should contravene universal support UN, (2) within hemisphere both Federation Latin American countries and subregional groups such as Gran Colombia should be promoted; (3) Ecuador supports claims Guatemala, Argentina and Chile to Belize, Falklands and Antarctica; (4) PAU Governing Board should not be given political powers; (5) in economic matters industrialized nations are unjustly seeking impose own economic theories on semi-colonial countries. Conference must recognize latter's right to tariffs, quota systems, et cetera, and should repudiate trade policy agreed on at Habana.

Committee I: Beaulac,<sup>2</sup> supported by Brazil, stated US agreement regarding inclusion only generally accepted rights and duties states as principles of inter-American relations in operative provisions Organic Pact. Added US agreed that provisions of OP regarding exercise political powers PAU Governing Board should be clarified and clearly defined. La Rosa (Argentina) argued against OP provisions granting any but administrative powers to Governing Board as opening door to intervention and superstate.

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<sup>1</sup> Gen. Higinio Morinigo, President of Paraguay, 1943-1948; for documentation on the Paraguayan situation, see pp. 700 ff.

<sup>2</sup> Ambassador Willard L. Beaulac, Delegate of the United States.



Committee II: Mexico favored stronger association American states than contemplated draft Organic Pact and urged appointment *ad hoc* representatives Governing Board. Brazil opposed Argentine thesis for independent military council, disagreed with Argentine fear regarding creation of superstate and firmly supported basic provisions draft Organic Pact. Castro (El Salvador)<sup>3</sup> opposed requirement that countries appoint special representatives Governing Board. Armour (US)<sup>4</sup> gave general statement US views stating that language can be found to insure that Governing Board would exercise functions within limitations set by treaties and under direction of governments.

Highlight Committee IV was speech by McCloy International Bank which stressed that Latin America at present is area of primary interest to bank. Bank is prepared to help develop its resources, but not necessarily along lines US development and hopes blaze trail for private international investment. Speech well received but questions revealed LA interest more favorable consideration government-sponsored projects.

Committee V established three subcommittees: Social matters, cultural matters, statute commission women and women's rights. US to be on all three.

BEAULAC

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<sup>3</sup> Hector David Castro, Ambassador to the United States.

<sup>4</sup> Norman Armour, Assistant Secretary of State for Political Affairs and United States Delegate.

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Lot 60D665, Box 15280: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting  
Secretary of State*

Bogotá, April 7, 1948.

Delbog 39. Daily Summary No. 6. Speakers plenary Betancourt (Venezuela) Revoredo (FonMin Peru) and Lozano y Lozano (Colombia). Betancourt made following points: (1) dictatorship anywhere is threat democracy and tragic reality is that there exist "tropical and *criollo*" dictatorships in America and millions this hemisphere now lack social and political freedoms. IA system cannot have real support until hemisphere truly democratic. (2) Colonial status in hemisphere is anachronism and incompatible IA juridical system. This does not negate legitimacy of claims AmReps to territories under foreign domination. Added hope Puerto Rico may attend next IA conference as sovereign state. Applauded. (3) Lack of balance in economies of US and other twenty AmReps is source friction. LA must have free access manufactured goods; free enterprise must have legal limitations and subregional agreements like Gran Colombian fleet should be pro-



moted. Forthcoming economic conference should, like CEEC, take census LA assets and needs and make long range plans for assistance.

Revoredo called for consolidation of defense of western hemisphere against threat of world domination and for Marshall Plan of LA including IA Bank to offer credits to AmReps.

Lozano characterized task of Conference as not creating new ideas but consolidating achievements immediate past. Supported draft Organic Pact, pacific settlement treaty, compulsory jurisdiction ICJ, arbitration for nonjuridical matters, firm guarantees human rights, inclusion rights and duties states as integral part Organic Pact. Called Secretary's speech constructive and vigorous and praised Secretary as authentic hero democracy. Gave first offer help in ERP in response Secretary's plea. "We cannot seek your cooperation without offering our own". Added that to contribute to European recovery and absorb its exports LA needs technical assistance and stimulation flow investment capital through IA development commission, organization to make loans and agreement avoid double taxation.

In Committee I support growing for inclusion rights and duties states in substantive provisions Organic Pact. Beaulac (US) agreed inclusion only generally accepted principles.

Other committees occupied routine business.

BEAULAC

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710.J/4-848 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 8, 1948.

Delbog 46. Daily Report No. 7. All US amendments organic pact, pacific settlement treaty and economic agreement formally submitted. In effort place burden on others to propose methods avoidance duplication IA and UN economic machinery, Harriman announced Committee Four that US temporarily withholding affirmative proposals or comments on Articles 9-14 draft economic agreement until conference reaches decision re scope functions ECLA and IA ECOSOC, and stated attempts by Mexico, Guatemala clarify functions unsatisfactory.

Committee Two: Barros Jarpa (Chile) firmly opposed grant any political powers governing board and opposed decision Rio Conference that board act as provisional organ consultation, stating that large sectors of opinion dubious re IA system because managed from Washington, adding he knew of no instance of undue US influence. Proposed that organ consultation be diplomatic corps in other American representative [*Republics*] chosen in rotation by each international con-

ference. La Rosa (Argentina) stated Argentina unwilling ratify pact if in its opinion it established superstate; reiterated arguments against political powers governing board. Panama also opposed. Mora (Uruguay) supported Mexican proposal that governing board as interorgan consultation be required immediately convoke meeting Foreign Ministers to obviate possibility board becoming in effect permanent organ.

Committee Three: Mexico supported compulsory jurisdiction ICJ (International Court Justice) and compulsory arbitration non-juridical disputes. Peru favored former only. Tate (US) favored inclusion treaty provision re compulsory jurisdiction ICJ but favored fullest freedom choice procedures solution non-juridical disputes.

Committee Six: Ecuador withdrew resolution re abolition practice recognition. Mexico proposed resolution stating continuance political relations should be independent internal governmental policies and proscribing use recognition as instrument national policy. Supported by Argentina, Dominican Republic, Ecuador. Opposed by Chile, Peru.

Argentina and Guatemala urged respective colonial claims. Venezuela supported Guatemalan resolution on colonies. Brazil reserved position, stressing desirability pacific settlement.

Plenary session speakers: Dardo Regules (Uruguay) Castro (El Salvador), Despradel (Dominican Republic). Regules pointed out that insofar as Communism is social revolution it cannot be met by force and insofar as is political instrument of USSR can best be dealt with by individual countries. Other speeches routine.

BEAULAC

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710.J/4-848: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 8, 1948—midnight.

Delbog 50. Daily Report No. 8. Plenary session speakers Belt (Cuba) Bonilla Lara (Costa Rica) and Meany (Guatemala). Belt made following points: Foreign capital, compelled by lack investment opportunities own country and burdened by high taxes, sought through usury and greed obtain safe investments Latin America with greater privileges than national capital. Even sought armed and economic aggression to protect interest. Intervention stopped in 1933 but Good Neighbor Policy not been sufficient to create confidence. Following steps necessary: Condemnation economic aggression, determination conditions and guarantees for foreign capital and conclusion treaty assuring cooperation and prosperity Latin America. Meany urged abolition colonies as only way achieve hemisphere unity.

Spanish translation President's message to Congress regarding Export-Import Bank's increase <sup>1</sup> then read by conference Secretary General, 6:30 p. m. Little outward evidence affirmative reaction.

Committee II: Debate continued regarding grant political powers governing board, Cuba and Colombia supported essentials draft Organic Pact. Mexico proposed two categories specialized organizations: permanent, created by treaties and temporary, created by governing board. Colombia and Uruguay opposed Mexican amendment and defended articles draft Organic Pact.

Committee III: Venezuela, Colombia, Ecuador favor compulsory jurisdiction ICJ, latter only if five of fifteen judges are from American Republics. Ecuador, Guatemala, Venezuela, Chile favor compulsory arbitration non-juridical disputes, latter excepting domestic matters.

Committee IV: Maroglio (Argentina) stressed that US and Argentina only countries also extend financial help for economic development other American Republics. Pledged Argentina's help. Proposed IA bank. Mexico and Colombia took view that \$250,000 each for budgets ECLA and IA ECOSOC too small.

Committee VI: US submitted resolution on recognition. Daniels stated US position as follows: (1) decisions regarding recognition up to each state; (2) refusal establish relations does not constitute intervention; (3) IA consultation is useful as means resolve problems arising from overthrow established governments; (4) establishment diplomatic relations is separate matter from severance relations in compliance collective obligation under Rio treaty or UN charter; (5) adoption US resolution would further IA cooperation and contribute continuity interchange through official channels. Opinion divided over treaty versus declaration of human rights. Greater sentiment now favors declaration. Guatemalan proposal for IA court to enforce human rights opposed by Bolivia, Mexico, Chile, Ecuador.

BEAULAC

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<sup>1</sup> For text of President Truman's message of April 8, see the Department of State *Bulletin*, April 25, 1948, p. 548.

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Lot 60 D 665: USBog/150

*Remarks of William McC. Martin, Jr., President of the Export-Import Bank of Washington Before Committee IV of the Ninth International Conference of American States* <sup>1</sup>

Bogotá, April 9, 1948.

Last evening at the Plenary Session you all heard read the message of the President of the United States to the United States Congress requesting an increase of \$500,000,000 in the lending authority of the

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<sup>1</sup> United States Delegation press release 20, April 9, 1948.



Export-Import Bank.<sup>2</sup> As stated in his message "This increased lending authority would place the bank in a position to assist in meeting essential requirements for the financing of economic development in the other American Republics. It would permit the bank to make loans for well-planned development projects which are economically justified and to cooperate most effectively with private funds."

We in the United States recognize clearly that although private capital must play the major role in the economic development of Latin America, nevertheless, inter-governmental financial cooperation will be required. We are confident that the International Bank as an inter-governmental institution will play an increasingly important role in supplying such capital as well as in stimulating and facilitating private investment.

The International Bank, as its name implies, is not the agency of any one government. It is, as Mr. McCloy so aptly stated, "your Bank" because practically all of you have contributed to its capital and are actively participating in its management. At Bretton Woods and in the Draft Agreement prepared by the Inter-American Economic and Social Council earlier this year it was agreed that the International Bank should be the principal instrument for inter-governmental financial cooperation. However, we are also aware that the International Bank may not at all times be in a position to meet all the requests which may be addressed to it, since it must have recourse to the private capital market for its funds and since it must have regard for the requirements of more than its Latin American members alone.

It is for this reason that the request for an increase in the lending authority of the Export-Import Bank has been made. This increase should make certain that the Export-Import Bank will be able to consider all those requests for credits to finance sound development projects which are not otherwise met. It should ensure that the economic development of your countries will not be retarded by a lack of capital.

The existing close cooperation between the Export-Import Bank and the International Bank will continue in order to ensure that the latter institution will have every opportunity to discharge its functions as the principal intergovernmental source of development credits. The cooperation will also ensure that no sound development project which cannot be privately financed will fall into a gap between the two institutions.

Everyone here, I think, understands that the Export-Import Bank is a United States Government lending agency. It has a broad charter, and so long as it facilitates the financing of exports and imports it has

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<sup>2</sup> For text of President Truman's message to the Congress on April 8, see the Department of State *Bulletin*, April 25, 1948, p. 548.



authority to make its own lending policies subject only to two important limitations placed upon it by the United States Congress. The first relates to private capital. We are specifically directed to supplement and encourage and not to compete with private capital. In the second place, our loans must be for definite projects and must, in the judgment of the Board of Directors, have reasonable assurance of repayment. Within these limits, however, and they are the limits which must inevitably apply to the operations of any Bank designed to assist in financing development, the Export-Import Bank can make all the types of loans which may be required for development purposes. It can and does make loans to both governments and private entities. It can make loans to private entities without government guarantees where sufficient assurance of repayment is provided without such a guarantee, and where valid reason exists for the omission of this type of endorsement.

The Bank can, in exceptional and justified cases, make loans to cover local currency requirements and it has done so. However, it is the experience of the Bank that there is rarely justification for such loans. Applying governments and enterprises in discussing their financial requirements with the Bank have in most cases found that there were in fact local sources of capital to cover local currency requirements, and in view of the obvious desirability of avoiding the unnecessary amassing of obligations in foreign currencies, have chosen to borrow to finance only foreign exchange requirements.

Since the establishment of the Export-Import Bank total credits in excess of \$1 billion have been authorized for the other American Republics. Since 1940 alone credits aggregating \$908,000,000 have been authorized for your countries. Not all of these funds have actually been utilized. In some instances, changes in the plans of the borrowers, inability to obtain desired equipment or other factors, prevented the planned utilization of these credits. However, as of March 15 of this year \$466,000,000 had been disbursed by the Export-Import Bank under credit commitments for the other American Republics, and more than \$200,000,000 had been repaid. As of that same date \$266,000,000 were outstanding, and roughly \$200,000,000 remained to be drawn under still existing authorizations or commitments.

I take great satisfaction in the concrete record of accomplishment in the form of railroads, highways, electric power and industrial plants, and other productive installations throughout the Americas. I take equal satisfaction, as I am sure you all do, in the excellent record of repayment of these credits. This record reflects the sound judgment, in the first instance of the borrowers, and in the second instance of the Bank, in the selection of the projects to be financed. I look forward to the continuing exercise of such sound judgment on the part of all of us.

We also look forward to a continuation of the highly satisfactory cooperation we have enjoyed in the past and we are confident that through this cooperation there will appear many more concrete expressions of economic progress, many more productive facilities which will serve to raise the level of living of all our peoples.

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821.00/4-948 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

CONFIDENTIAL

Bogotá, April 9, 1948—3 p. m.

190. Liberal Party chief Jorge Gaitan was shot and killed about 1:15 p. m. today on Carrera Septima and Jimenez de Quesada in central Bogotá. Mob seized and killed assassin, dragged corpse to front Presidential Palace, then hanged it on public street. Mob invaded Capitolio, seat of Pan American Conference, ransacking building and attempting set fire at least one wing. Within one hour after Gaitan's assassination, armed individuals and bands began looting shops, with determined attacks on hardware shops to obtain weapons, including machetes, iron pipes, guns, etc. Bomb was thrown into ground floor Edificio Americano where offices U.S. delegation housed on seventh floor.<sup>1</sup>

BEAULAC

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<sup>1</sup> For an article entitled "Bogotá, April 9", by Cecil B. Lyon, Special Assistant to the Assistant Secretary for Political Affairs (Armour), and Adviser to the United States Delegation, see *The American Foreign Service Journal*, vol. 25, No. 5, May 1948, p. 7. See also USDel Report, pp. 6-8.

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710.J/4-1048 : Telegram

*The Secretary of State to the Acting Secretary of State*

CONFIDENTIAL

Bogotá, April 10, 1948—10 p. m.

Martel 39. Daily Summary No. 9. Chiefs delegations met this afternoon at residence of Honduran delegate <sup>1</sup> who is Acting President conference and unanimously adopted following urgent measures:

1. Conference should continue.
2. Appointed commission consisting senior military officers of delegations of United States, Argentina, Brazil, Chile, Mexico, and Uruguay to establish contact with Colombian military authorities to arrange for immediate evacuation to their respective residences of approximately 100 members delegations including chiefs Paraguayan delegation all of whom took refuge military barracks. I have since been informed they have all been returned to their lodgings.

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<sup>1</sup> Marco Antonio Batres, Chairman of the Honduran Delegation and First Vice President of the Conference.

3. Appointed commission consisting military representatives US, Argentina, Brazil, Mexico, Peru and Venezuela under chairmanship chief Peruvian delegate to formulate plans to evacuate by airplane women and other non-essential persons attached to delegation who may wish to leave and other members delegation in that order. However, I stressed that first step should be to arrange for security for arrival and departure of airplanes.

4. Appointment committee consisting of resident chiefs of mission of US, Argentina, Bolivia, Brazil, Chile, Cuba, and Venezuela to arrange with Colombian Government for security of delegation residences, transportation, food, and other services and for committee to establish central point of control for delegations. Argentina, Panama, Peru expressed opinions impossible conduct conference here but agreed defer decision until Tuesday <sup>2</sup> unless of course, situation worsens.

Venezuela, Dominican Republic, Mexico, and Cuba offered respective capitals as seats for conference in case necessary leave Bogotá.

I stated it was not only important but imperative that conference continue and that revolutionary movements here were not confined to Colombia but had world-wide implications. I also stated we must keep conference on high plane maintain our integrity and that I would therefore not discuss suggestions of Argentine delegation to bring in US troops to secure Bogotá Airport. That besides being a grave decision for my Government, it would require the unanimous approval of the delegates which it does not have.

The delegates agreed meet daily with next session tomorrow (Sunday) at 2 p. m.

Remodeled capital building which conference meeting held completely gutted. Conference records and equipment destroyed. Department capitol and municipal buildings also destroyed and tremendous destruction business center. Practically all downtown stores looted. Center of city shambles and fires still burning.

President Ospina Perez has announced today formation of coalition Cabinet including Liberals and Conservatives. Reports reaching me indicate situation easier.

Entire delegation and Embassy staff are safe.

MARSHALL

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<sup>2</sup> April 13.

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710.J/4-1148: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

CONFIDENTIAL

Bogotá, April 11, 1948.

Unnumbered. White from McDermott.<sup>1</sup> Emergency dispatch 22 for pool press. Secretary State Marshall took lead evacuation conference

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<sup>1</sup> P. Lincoln White, Executive Assistant to the Special Assistant to the Secretary of State for Press Relations (McDermott).



people by asking Lovett<sup>2</sup> shortly before noon Sunday<sup>3</sup> send two planes here from Panama.

Planes will take only women and one American pool correspondent. Women include United States and those other delegations. Government in control airport. Conferring continuing among chief delegates trying decide what do. Marshall's aides emphasized his decision call for planes start moving nonessential lower echelon female members delegations prompted by serious food crisis rather than general situation in city where major revolutionary trouble now is snipers.

Reported Colombian Government appealing delegates stay on and give government chance try continue conference here and show it can control.

Argentine delegate Saverio Valenti said "Argentine delegation going get out here regardless what happens," suggesting it might possibly transfer conference Panama, Mexico, Lake Success. Habana also mentioned. Cuban delegate Guillermo Belt said after meeting top delegates afternoon they decided give government until Tuesday show whether can provide protection food and facilities sufficient continue here. If not, by then delegates meet again decide what do.

Priest in parish church Santa Ana in Teusaquilla district sermon mass to faithful carry arms and shoot anyone seen looting or arsoning. "If you kill looter don't come me confess it. It not sin." Priest made clear any action parishioners take should be cooperation organized authority. Government urged people stay inside and moved curfew up to 1900 to give army chance clean up snipers.

Gaitan's funeral reported scheduled Thursday.<sup>4</sup> Gaitan's embalmed body at home and police allowing three to five in at time view it. Large crowds outside home but order maintained. Radio announced no papers published but all four Liberal Party papers had asked radio appeal readers help restore order. Government announced 1445 EST over radio group who attempted foment revolution last Friday after seizing radio stations had been arrested including two Russian agents and other foreigners. [McDermott.]

BEAULAC

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<sup>2</sup> Under Secretary of State Robert A. Lovett (Acting Secretary of State).

<sup>3</sup> April 11.

<sup>4</sup> April 15.

710.J/4-1148 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

CONFIDENTIAL

BOGOTÁ, April 11, 1948—11 p. m.

US URGENT      NIACT

222. Daily Summary No. 10. Second meeting heads delegation held Sunday afternoon in house and under acting chairmanship Chief Honduran Delegation unanimously agree sign and publish following declaration :

"The delegates to the Ninth International Conference of American States affirm the democratic solidarity of peoples American continent and common historic purpose to contribute in peace to progress and welfare of humanity cannot be at mercy of any transitory emergency occurring in any of their countries and declare their absolute determination to continue important work with which their governments have charged them until they have fully completed the task of the Assembly for which they convened at Bogotá."

Notwithstanding initial preoccupation few delegates regarding problem physical security unanimous sentiment favored continued conference in Bogotá unless situation so worsens as to make it physically impossible.

President and other officials have given assurances all measures will be taken to give necessary protection and other facilities for continuance of conference.

Two US planes arrived from Panama and evacuated personnel several delegations to Panama including following US personnel. [Here follows list of names.]

In view increasing control situation by government, unanimous sentiment favors continuation conference in Bogotá.

BEAULAC

710.J/4-1248 : Telegram

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*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

CONFIDENTIAL

BOGOTÁ, April 12, 1948—8 p. m.

232. Daily Summary No. 11. Meeting heads delegations held this morning with Carlos Lozano heading Colombian delegation and Guzman, Secretary-General, Ministry of Foreign Office present. Decided by 10 to 8 vote to wait until tomorrow 2 p. m. to receive complete report Committee of Ambassadors, reference security and physi-

cal facilities, before deciding finally reference continuance conference in Bogotá. Argentina, Mexico, Guatemala, express greatest doubts regarding immediate decision continuance conference here.

Marshall informed meeting of press reports from Yugoslavia, Bucharest. Stated is clear that movement was well organized and deliberate effort to sabotage conference and affect ERP and Italian election and that Colombian Government has suffered as consequence. Added that conference must not take action to give impression of defeat (in fact we must at all costs continue our work). Favored continuation work and supported Mexican proposal that steering committee resolve principle issues organic pact and leave drafting to working committee which can meet wherever convenient; added that world issue is involved and we must not sit idle.

Meeting decided unanimously that, anticipating favorable decision tomorrow, Colombian Government be requested arrange place resumption meeting steering committee Wednesday, April 14, 10 a. m. with authority decide basic issues regarding organic pact and then convoke meetings working committees as necessary. No discussion economic matters.

This afternoon Marshall and other delegates were able meet first time since revolution with full remaining US delegation and later with press for complete review recent events.

BEAULAC

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710.J/4-1348: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 13, 1948.

Delbog 60. Daily Summary No. 12. Heads delegation met today under chairmanship Zuleta Angel, new Colombian Foreign Minister, with Lleras Camargo.<sup>1</sup> Present meeting unanimously accepted report of committee of Ambassadors that conditions appear to be approaching normal and that necessary guarantees and adequate facilities for continuation conference are available decided by acclamation that conference continue immediately here. Marshall stated relief and pleasure at decision and offered fullest cooperation expedite work.<sup>2</sup>

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<sup>1</sup> Alberto Lleras Camargo, Secretary General, Pan American Union.

<sup>2</sup> The Acting Secretary of State informed Secretary Marshall in Telmar No. 55, April 13, 5 p. m., not printed, that the unanimous feeling in Washington was that the continuation of the Conference was of greatest importance (710.J/4-1348).



Temporary conference headquarters will be school gymnasium<sup>3</sup> near US Embassy residence although Zuleta announced Capitolio would probably be ready tomorrow 10 a. m. to resolve following problem regarding Organic Pact: (1) political powers governing board, (2) relation defense council to PAU (3) financing PAU (4) definition and name IA system. General agreement that problem colonies recognition, preservation democracy and human rights be initially considered Steering Committee and that Economic Committee also meet tomorrow.

BEAULAC

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<sup>3</sup> Unsigned marginal note: "Probably the Gimnasio Moderno, Bogotá's best secondary school."

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710.J/4-1448 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 14, 1948.

Delbog 67. Daily Summary #13. After extensive morning session in Steering Committee under chairmanship Zuleta (Colombia), subcommittee of Argentina, Brazil, Ecuador, Mexico, El Salvador, Uruguay, Venezuela, drafted following text Article 1 Organic Pact which was approved Steering Committee afternoon session ;

The American states consecrate in this charter the international organization which they have developed to achieve a peaceful and just order, to promote their solidarity, to strengthen their collaboration, and to defend their sovereignty, their territorial integrity and their independence. Within UN the organization of American states constitutes a regional organization.

Eleven to 10 decision use word "states" instead of "nation". Morning debate occasioned principally by insistence Bramuglia (Argentina) that since words "union, association" et cetera implied super states lessening state sovereignty, Argentina would make reservation if words appeared in pact.

Steering Committee meets 10 a. m. tomorrow. Debate problem political power governing board. Economic Committee also meets 10 a. m. Sessions continue in school building Chapinero residential section.

BEAULAC

710.J/4-1448

*The Secretary of the Treasury (Snyder) to the Acting Secretary of State*

WASHINGTON, April 14, 1948.

MY DEAR MR. LOVETT: I refer to the message which I received from Secretary Marshall on April 13 (Niact, Martel 46, April 12<sup>1</sup>).

Will you please inform Secretary Marshall that the National Advisory Council, at a special meeting on April 13, approved the granting of a \$10 million emergency reconstruction loan by the Export-Import Bank to finance U.S. equipment and materials to repair the recent destruction in Colombia.<sup>2</sup>

Very truly yours,

JOHN W. SNYDER

*Chairman*

*National Advisory Council on  
International Monetary and Financial Problems*

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<sup>1</sup> Not printed.

<sup>2</sup> For a statement on the authorization of a credit to Colombia of \$10 million, see the sixth semiannual report of the Export-Import Bank of Washington to Congress for the period January-June 1948, p. 6.

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710.J/4-1548 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

BOGOTÁ, April 15, 1948.

Delbog 75. Daily Summary #14. After extensive debate steering committee morning session, highlighted by effective speech Rocha (Colombia), opposition particularly by Argentina and Panama to granting any political powers to governing board appeared modified and subcommittee of Argentina, Brazil, Colombia, US, Mexico, Panama, Uruguay drafted following text article 35 organic pact, using US draft as basis: "Governing board shall take cognizance within limits of present pact and Inter-American treaties and agreements, of any matter assigned to it by International Conferences of American States or meeting of Foreign Ministers." Text approved afternoon session steering committee.

Notwithstanding general agreement no retreat from powers granted board as provisional organ consultation under Rio Treaty, Torres (Mexico) and Bramuglia (Argentina) insisted is essential make clear that board cannot invade jurisdiction meetings Foreign Ministers and become permanent organ consultation. Subcommittee therefore agreed following text article 36: "Governing board shall act as provisional organ consultation when circumstances envisaged in article 12 of this

pact arise. In case of armed attack meetings Foreign Ministers shall be held without delay by immediate convocation of president of governing board who at same time will convoke governing board." Text also approved afternoon session steering committee after confused debate, but several proposed amendments were referred to subcommittee for report morning session steering committee.

Economic committee met morning and afternoon. Agreed hold daily sessions full committee debate controversial issues economic agreement, subcommittees to meet concurrently. Monday deadline submission substantive amendments.

BEAULAC

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710.J/4-1648 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

BOGOTÁ, April 16, 1948—10:30 p. m.

Delbog 76. Daily Summary #15. Steering committee approved following redraft second sentence article 36, Organic Pact transmitted Delbog 75 "In case armed attack within territory American states or within region delimited by existing treaties, meeting Foreign Ministers shall be held without delay by immediate convocation president governing board who at same time will convoke board".

Began discussion inclusion rights duties states in Organic Pact, favored by Chile, Mexico, Colombia, Costa Rica, Panama and Haiti.

Committee Two subcommittee provisionally approved article 34, 37, 38, 40 Organic Pact. No substantial change.

Martin addressed economic committee indicating that role Export Import Bank is supplementary to World Bank as principal inter-governmental source development credits and stressing requirements of no competition by Export Import Bank with private capital and necessity reasonable assurance of repayment. Stated bank can make private loans without governmental guarantees if sufficient assurance of repayment and added that although rarely justified bank can make loans cover local currency requirements.

Economic committee approved with chairman US opposing addition to article 3 draft economic agreement paraphrasing paragraph 5 resolution 46 Chapultepec<sup>1</sup> reaffirming necessity of equalizing terms of trade between raw material producing countries and industrialized countries. Working group, Argentina, Bolivia, Chile, Colombia, Ecua-

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<sup>1</sup> For resolution XLVI, Final Act of the Inter-American Conference on Problems of War and Peace, Mexico City, February 21-March 8, 1945, see Report of the United States Delegation, p. 113 (Department of State Publication No. 2497).



dor, Mexico, United States appointed consider Bolivian proposals re increase prices raw materials; no synthetic competition with natural products; no MFN clause in IA contiguous country agreements; and obligation by industrially developed countries to cooperate so that others may export raw materials in quantities and under conditions favorable to latter.

Sub-committee, economic committee approved chapter 8, economic agreement on travel including US amendment. Also approved Bolivian recommendation that IA, ECOSOC and Juridical Council prepare agreement re abolition passports. Also approved US travel resolutions.

Committee Six decided abandon sub-committee and take up following subjects in order: rights duties man, recognition colonies, preservation of democracy. On first item Argentina favored declaration to be annexed organic pact including essential social guarantees.

BEAULAC

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710.J/4-1948: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 19, 1948.

Delbog 91. Daily Summary Number 16. Steering Committee decided include principles of rights and duties of states in body of Organic Pact content and language to be determined by working committee.

Committee VI decided rights and duties of man should be in separate declaration without binding force content and language being worked out by subcommittee.

Questions regarding method and extent of inclusion of Rio treaty in Organic Pact and establishment of military agency discussed in Steering Committee and subcommittee Argentina, Brazil, Chile, Mexico, Panama, Peru, US and Uruguay appointed to resolve them.

General sentiment in Steering Committee favored separating governing board partially from the PAU to become "Permanent Council" of IA system now to be called "Organization of American States" and restricting name "PAU" to the administrative offices which would serve as "General Secretariat of Organization".

Steering Committee approved following text of Article 33 Organic Pact:

"Article 33 Permanent Council of Organization of American States is composed of one representative for each State member specially appointed by respective government with rank Ambassador. Appoint-

ment may devolve upon diplomatic representative accredited to government of country in which Council has seat. During absence of regular representative governments may appoint interim representative”.

Subcommittee II C approved following Article 39 organic pact:

“Governing Board shall establish basis for fixing quota that each government must contribute to maintenance PAU taking into account capacity to pay respective countries and their determination to contribute in equitable manner. Budget shall be approved by Governing Board and communicated to governments at least six months before first day fiscal year with indication annual quota each country. Decisions on budgetary questions shall require approval two thirds members”.

Economic Committee discussed private investments Chapter IV economic agreement. Harriman's explanation US position well received and working group appointed study US amendments. Mexico, Guatemala and Honduras supported IA-ECOSOC draft. Uruguay based position on Articles 11 and 12 of ITO Charter. Peru supported US amendments except those on expropriation and taxes.

Economic Committee working group on Bolivian proposal (daily summary April 16) re guarantees for primary products became deadlocked and will meet again Monday.

BEAULAC

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710.J/4-1948: Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 19, 1948.

Delbog 92. Weekly Summary No. 2. Outstanding development of week was accelerating tempo and gradual amplification of conference work so that by week's end in effect entire agenda was again being considered with principal exception of social and cultural matters. However as yet many subcommittees have not been reestablished.

Steering committee has temporarily emerged as in part a replacement of plenary sessions and in part a forum for substantive debates on controversial points particularly regarding Organic Pact. Torres Bodet (FonMin Mexico) is becoming outstanding leader in these.

Principal substantive decisions of week are:

1. In the reorganization of “organization of the American states” political powers of the governing board are defined as only those which international conferences or meetings FonMins may grant it plus function of acting as provisional organ consultation under Rio treaty provided that in event armed attack President of Board must convoke meeting FonMins immediately—this to prevent board from turning into permanent organ consultation.

2. Members of board may be either regular ambassadors in Washington or specially appointed representatives at option of governments.

3. Governing board shall determine quota for maintenance taking into account capacity to pay and determination to contribute in equitable manner and shall decide all financial matters by two thirds vote.

4. Basic rights and duties of states shall be included in body of Organic Pact. Rights and duties of man shall be separate declaration without binding force.

5. In economic matters it was decided with US opposing that economic agreement should reaffirm necessity of compensating disparity between prices raw materials and those of manufactured products and establishing equitable relationship between them.

Principal immediate issues emerging at the close of the week are:

1. Should PAU governing board be partially separated from union and made "permanent council of organization of American states" and the name "Pan American Union" restricted to administrative offices in Washington as "General Secretariat of Organization". Answer will probably be in affirmative.

2. Should defense council be organ of governing board or separate agency; should it be established by Organic Pact or separate treaty?

3. Are Latin Americans willing give sufficient guarantees stimulate flow US private capital?

4. What will be nature functions and resources of Inter-American Development Organization?

5. Can US opposition to general discrimination in favor national shipping as practised by several Latin American countries be reconciled with Latin American view that special privileges are necessary to build up domestic merchant fleets?

BEAULAC

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710.J/4-1948: Telegram

*The Acting Secretary of State to the Secretary of State*

SECRET

WASHINGTON, April 19, 1948—5 p. m.

Telmar 90. Eyes Only and Personal for Marshall from Lovett. Growing sentiment evident in Congress and press that every effort should be made to terminate conference soonest possible without appearance failure or running away. This based on mounting tension abroad and increasing reports Communistic and revolutionary moves elsewhere Central and South America causing queries as to whether delegates should not be back home "doing something about it".

No doubt some of this agitation inspired by domestic political considerations. Only for personal guidance, can you give me any estimate of termination date or your return?

LOVETT



710.J/4-2048 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting  
Secretary of State*

Bogotá, April 20, 1948.

Delbog 103. Daily Summary No. 17. Re collective security matters Steering Committee Monday afternoon approved following complete text Chapter III organic pact as drafted by working group of Argentina, Brazil, Chile, Mexico, Panama, Peru, US, Uruguay.

"Article 10. Every aggression by state against integrity or inviolability of territory or against political independence of American state shall be considered act of aggression against all other American states.

Article 11. If inviolability or integrity of territory or sovereignty or political independence of any American state should be affected by armed attack, or by act of aggression other than armed attack, or by extracontinental conflict or by conflict between two or more American states, or by any other fact or situation that might endanger peace of America, the American states, giving effect to principles continental solidarity and legitimate defense, shall apply methods and procedures established in the special treaties existing on this subject."

Also approved understanding that Article 11 includes all provisions Rio treaty.

Also approved following articles Organic Pact drafted by same working group to replace Articles 59-65 of governing board draft :

"Article A. There is established an advisory Defense Committee to advise organ of consultation on problems of military collaboration which may arise in connection with application of existing treaties dealing with collective defense.

Article B. Consultative Defense Committee shall consist of highest military authorities American nations which participate in consultative meeting. Under exceptional circumstances, governments may designate substitutes. Each government shall have one vote.

Article C. Consultative Defense Committee shall be convoked at same time and in same manner as organ consultation, when latter is to deal with matters relating to defense against aggression.

Article D. When assembly or meeting consultations, or two-thirds of governments, assign to committee technical studies or reports on specific subjects, it may also meet for that purpose". Approved express understanding that committee can not intervene in military affairs member states nor carry out studies within states without consent.

Also approved following complementary resolution on continuing present IA Defense Board. "Conference, considering that there has been created an Advisory Defense Committee to advise organ consultation on problems military collaboration which may arise in connection with application of existing treaties dealing with collective defense;

"That it is desirable that American States be in position request

information from Defense Board on measures contributing to collective security of American continent; resolves that:

"1. Defense Board shall continue to act as preparatory organ for collective defense against aggression, until American governments by two-thirds majority resolve to terminate its work.

"2. Board shall formulate own regulations of organization for discharging, in addition to advisory functions it now has, such other functions of same character as may be delegated to it by the committee established in article—of charter of organization of American states.

"3. Secretariat of Defense Board shall serve as secretariat of committee referred to preceding paragraph".

Also approved separate resolution to include Defense Board budget in that of PAU.

(Note: Ridgway <sup>1</sup> for the military representatives requests all foregoing be passed to Secretary Joint Chiefs Staff with request to furnish copies to all three services.)

Steering Committee approved following articles organization pact separating government board from PAU to become "Council of Organization" and applying name PAU to administrative offices to become "General Secretariat of Organization":

"Article 14. Organization of American states carries out its purposes through: (1) Inter-American Conference (2) Meeting of Ministers of Foreign Affairs (3) Council (4) Pan American Union (5) Specialized conferences (6) Specialized organizations.

Article 35. BIS Council shall be responsible for proper discharge by PAU of duties assigned to it.

Article 38. (F) It is also duty of Council to adopt the resolutions to permit Secretary General to carry out functions envisaged in Article (old 46).

Article 42. PAU is a central and permanent organ of organization American states, and secretariat general of organization. It also has mission of strengthening economic, social, juridical and cultural relations among all member states. It shall perform functions conferred upon it in this charter and other Inter-American treaties and agreements.

Article 44. There shall be a secretary general of the organization, who shall be elected by Council for term of ten years et cetera as in old draft.

Article 45. Secretary general directs PAU and is its legal representative.

Article 47. PAU, through its technical and information offices, shall promote, under direction of Council, economic, juridical, social and cultural relations among all states members of organization."

Steering Committee also approved Articles 32, 34, 37, 38, 40, 44, and 46 of government board draft without substantial change.

<sup>1</sup> Lt. Gen. M. B. Ridgway, Alternate United States Delegate.

All above articles will now be referred to working committee for coordination, changes in drafting, and additions.

At end of Plenary Session Monday, Betancourt (Venezuelan) read Washington UP despatch re Nicaraguan invasion Costa Rica <sup>2</sup> suggesting that President seek further information and opinion delegates re advisability meeting Tuesday consider situation. Marshall stated no confirmation received by US Delegation. Debayle (Nicaraguan) stated despatch untrue and that Nicaragua had only moved troops to protect southern frontier as act self-defense on own territory as elementary sovereign duty of state. Called on Costa Rican Delegate to testify Nicaragua's scrupulous respect for Costa Rican sovereignty. Machado (Costa Rica) stated he had heard Nicaraguan statement with satisfaction and hoped it would be confirmed by government. Added that former Nicaraguan Governments always respected Costa Rican sovereignty. President Zuleta (Colombian) closed meeting by stating would take note Betancourt's suggestion.

Committee VI working group on rights, duties man composed Argentina, Bolivia, Brazil, Colombia, Cuba, Mexico, Peru, US, Uruguay, Venezuela, has held series meeting to draft declaration. Notwithstanding initial agreement restrict declaration to essential rights, avoiding surplusage and omitting references duties individuals and states, at Monday meeting several special points were raised which makes doubtful prompt conclusion declaration satisfactory to conference and more doubtful of declaration satisfactory US.

On economic matters working group on private investments in encouraging atmosphere tentatively approved draft Article 18 economic agreement generally following US proposals and US amendments second sentence Article 19.

In working group on new economic organizations Mexico, Venezuela repeated insistence necessity immediate creation independent substantial development planning organization. US reiterated position this work should be done within framework IA ECOSOC. Argentina appeared to agree with US but urged creation IA bank. In full economic committee Harriman's statement was read regarding economic assistant to Secretary Commerce to safeguard LA interests allocation scarce articles [*sic*]. Venezuela submitted resolution that economic conference of Ministers of Economy, Finance or Development meet September this year.

BEAULAC

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<sup>2</sup> For documentation on this subject, see pp. 488 ff.



710.J/4-2048 : Telegram

*The Secretary of State to the Acting Secretary of State*

SECRET

BOGOTÁ, April 20, 1948—1 p. m.

Martel 78. Eyes Only personal for Lovett from Marshall. Reference Telmar 90,<sup>1</sup> Harriman can give you details.<sup>2</sup> Fundamental issues of organic pact settled yesterday. I anticipate completion finished draft for final vote Thursday a. m. Colony issue probably debated tomorrow and maybe anti-Communist resolution.

That leaves economic issue which can be settled before end of week by resolution, but if that is not practicable we have difficult problem on our hands. Chairman inquired from Colombian Government if I would agree to stay until Saturday<sup>3</sup> if conference could be completed then. I refused to agree, not telling them that I would remain until Saturday but forcing issue which produced quick completion of difficult agreements yesterday on organic pact. I am told that we have anti-Communist resolution cinched. Time will tell. Argentine Minister is sincerely leading drive for quick action and in agreement with us except frankly regarding colonies.

I share Congressional and press views you reflect, except that I think my presence here has done more in the way of "doing something about" Communist and revolutionary reported moves in Latin America than our return home would do. For the moment at least we seem to have stabilized situation in Colombia unless Gaitan funeral at noon today fulminates another outbreak.

United Press report yesterday of State Department announcement re Nicaragua and Costa Rica resulted in a dangerous moment in conference. Please suppress such statements or give me a voice in decision regarding making them. I was placed in a very embarrassing situation in the conference and still am. Please put the brakes firmly down on such indiscretions.

MARSHALL

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<sup>1</sup> Dated April 19, p. 49.

<sup>2</sup> Acting Secretary Lovett informed the Embassy in Colombia in Telmar 96, April 20, 1948, 5 p. m., not printed, that Secretary Harriman had arrived in the United States.

<sup>3</sup> April 24.

710.J/4-2048 : Telegram

*The Acting Secretary of State to the Secretary of State*

SECRET

WASHINGTON, April 20, 1948—7 p. m.

Telmar 97. Eyes Only and Personal for Marshall from Lovett. Acknowledging Martel 78, information very helpful for guidance here.

Quoted comment in Telmar 90 referred only to delegates Central and South American countries now facing threatened revolts and was not directed toward your continued presence.

Have investigated United Press report regarding Nicaragua of which I was not aware. Am advised United Press had story from Costa Rica and additional information that Somoza had wired Bogotá explaining he had sent in troops for defensive purposes. United Press apparently made routine check with Department in view of previous State Department announcement of two weeks ago that friendly representations had been made by this Government to Nicaragua and Guatemala concerning nonintervention under inter-American pacts. Press office apparently confirmed information after consulting ARA. Renewed precautions have been taken, particularly during my continued absence before Appropriations Committee.

LOVETT

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710.J/4-2248 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 22, 1948.

Delbog 107. Daily Summary No. 18. Steering Committee today approved April 30 closing date conference [and] decided move sessions all committees except Steering Committee back to Capitolio.

(1) Nicaraguan-Costa Rican Situation : Steering Committee by 10-7 vote, US and Chile abstaining, approved Venezuelan motion appoint special committee to examine facts alleged Nicaraguan invasion Costa Rica and recommended action if any that conference should take, Chairman appointed Argentina, US, Brazil, Mexico, Haiti. In course discussion Machado (Costa Rica) stated that upon seeing news despatch, he visited Debayle (Foreign Minister Nicaragua) and received latter's assurance that there was not a single Nicaraguan soldier on Costa Rican soil. He cabled this to his government but no reply yet although expressing almost certainty correctness Debayle's assertions. Machado supported appointment committee.

Debayle referred to lack of precise boundary line between two countries and difficulty determining boundary exactly. Insisted that only after receiving official notice that foreign armed bands were heading for frontier to invade Nicaragua government sent soldiers to frontier in self defense. Referring press notices declared "as Foreign Minister Nicaragua I solemnly declare on Costa Rica soil," stated committee unnecessary.

Latter reference several delegates to importance of information. Re reported US protest Marshall stated that on April 17 acting Foreign

Minister Nicaragua informed US representative of proposed move on April 18 or 19. US Govt instructed representative Managua to communicate unofficially to Somoza US protest against any action by Nicaraguan Government involving crossing Costa Rica frontiers.

(2) Organic Pact: Steering Committee unanimously approved discussion economic and cultural cooperation and social guarantees in order include provisions regarding them in pact; approved Salvadoran amendment granting right [of] membership [in] organization American states to any new country created by amalgamation [of] existing countries. Subcommittee committee I approved acceptable preamble.

(3) European Colonies: After lengthy debate with participation all delegations except Haiti and Cuba, Steering Committee appointed working group Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Guatemala, Mexico, Uruguay, Venezuela to prepare agreed text resolution. Argentina proposed resolutions stating that since hemisphere colonial system and territory occupied by force by foreign countries keeps peoples in human subordination and constitutes danger to peace and security and disrupts continental unity conference resolves that (1) is just aspiration American peoples that colonization and *de facto* occupation be terminated and (2) that rights and responsibilities granted this resolution and juridical title of American Republics are valid as against claims foreign nations.

Venezuela and Ecuador supported establishment IA committee for continuous study colonial question. Bolivia proposes IA juridical council for this purpose.

Marshall stated <sup>1</sup> "such a mass or wealth of data has been submitted particularly by Argentina, Chile and Guatemala for our consideration that impression may have been given that this committee is virtually being converted into a court of law; even if such procedure were within the jurisdiction of committee the great principles of law and justice to which we all subscribe would demand that other party—or parties—be accorded hearing this of course would not be a permissible procedure.

US position can be briefly stated as follows:

(1) Reaffirmation or confirmation of its devotion to general principle that peoples of dependent territories should be helped to attain constantly increasing measure self-government; and

(2) Its earnest desire that disputes should be settled by peaceful means available to all parties and consistent with UN Charter.

Policy of US re European colonies Western Hemisphere has been one of opposition to extension of such colonies or of European politi-

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<sup>1</sup> For Secretary Marshall's statement, see USDel Report, p. 85.



cal influence this hemisphere. This policy has been strongly asserted on several notable, I might say, historical occasions.

With respect to current disputes under discussion here USDel would feel compelled to refrain from supporting any resolution which would appear to prejudge conflicting claims of friendly nations. It is USDel's hope that interested parties will redouble their efforts to seek equitable solutions based on law and justice and in conformity with our highest inter-American traditions and ideals.[<sup>2</sup>]

(3) Defense Democracy: US, Chile, Brazil, Peru introduced joint resolution (Delbog 108<sup>2</sup>). Unqualifiedly supported by Costa Rica, Honduras, Nicaragua, Panama, Paraguay, Argentina, Bolivia, Colombia, Ecuador, Mexico, Uruguay; and Venezuela supported in principle with following qualifications: Venezuela stated that dangers to democracy exist from right as well including dictatorships and Falange. All urged that social and economic justice is essential to defense democracy, most stressed importance of fighting communism by democratic means 12-member subcommittee including US appointed [*approved*] draft text.

(4) Economic matters: Working group economic committee approved Article 27 draft economic agreement. Working group re private investments deadlocked on Article 21 economic agreement re expropriation, notwithstanding general agreement re necessity favorable climate private investments. Venezuela, Mexico, and Guatemala insisted unable accept US proposal restricting expropriation to cases of "clearly defined public purpose" because of provisions domestic constitutions also resisted US proposal re "prompt" compensation.

Working group on Bolivian proposals re economic security for primary products again deadlocked; appointed US-Mexican drafting committee to resolve differences. Latinos badly split re Bolivian proposal for no competition of synthetic products with natural products positions US and Latinos apparently irreconcilable on regional exceptions MFN.

Subcommittee approved substances US draft re social guarantees, provisions economic agreement, also approved US draft on commercial policy except for Mexico which proposed addition of provisions re industrial protection. Also approved US proposal re substitute for Chapter X on relations with other international organizations, with minor amendments referred to drafting group Peruvian proposals re anti-dumping and import quotas (latter directed against US sugar and cotton quotas).

Working group Articles 24-25 economic agreement agreed on major part. US substitute for Article 24 US draft for Article 25 generally attacked as too negative and failing give Latin American countries adequate competitive position in US market as against ERP countries.

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<sup>2</sup> Not printed.

Working group on special economic organizations reached no decision in confused and inconclusive meeting highlighted by strong attack by Vellaseñor (Mexico)<sup>3</sup> on US private capital and International Bank; insisted on reopening question IA Bank and new technical development corporation with substantial funds; effectively answered by Chile, Venezuela and Argentina, more or less support Mexico, Uruguay; Peru more moderate and would agree to further study of questions by IA ECOSOC.

(5) Human Rights: Working group committee 6 completed draft "American declaration essential rights duties man" with separate chapters rights and duties respectively.

Chapter on rights includes life, liberty, security of person; residence movement, emigration and right to remain in state of nationality; inviolability of correspondence and domicile; protection against abusive attacks on reputation private and family life; expression information opinion; religious belief and observance; assembly association and petition; property; nationality to which entitled by law and right to change nationality; asylum; family; juridical personality; no arbitrary arrest and fair trial; participation in government work and remuneration; rest and recreation; cultural life and protection to inventors, authors et cetera; health; social security; mothers' and children's education; equality before law and general limitation clause.

Main problems for USDel this chapter are: right to receive as well as seek asylum; no detention for violations purely civil obligations; protection to inventors, authors, et cetera; economic and social rights as follows:

"Every person has the right to the preservation of his health through sanitary and social measures relative to the food, clothing, housing and medical care corresponding to the highest standard of living that the resources of the state or the community will permit.

"Every person has the right to social security and to protection of the state against the consequences of unemployment, sickness, old age and other causes of the loss of the means of livelihood for reasons beyond his control.

"Every woman during pregnancy and the nursing period, and every child, has right to protection and special care and assistance."

Proposal for separate chapter containing series of duties of man presented unexpectedly by Mexico during short subsequent meeting full committee on declaration. Tate (US) expressed doubt advisability such separate chapter.

(6) Social Matters: Committee 5 approved reference Honduran draft educational charter to IA Cultural Council.

BEAULAC

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<sup>3</sup> Eduardo Villaseñor Angeles, former President, Bank of Mexico.

710.J/4-2348 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

Bogotá, April 23, 1948.

Delbog 111. Daily Report No. 19.

(1). Nicaraguan Costa Rican situation: Steering Committee unanimously approved report special committee that, taking into account fact that conference Secretary General had received no official information and that chairman Costa Rican and Nicaraguan delegations clarified situation considerably in statements yesterday, committee believed "that up to now there is no reason or basis for conference to take cognizance of matter. Notwithstanding, since continental public opinion has been awakened by press despatches, committee believes that principle of non-intervention, fundamental standard of IA community, should on this occasion be reaffirmed in all its completeness."

(2). Defense democracy: Steering Committee unanimously approved resolution (text transmitted Delbog 112 <sup>1</sup>) drafted by working group on basis joint proposal submitted yesterday by US, Chile, Peru, Brazil (Delbog 108 <sup>2</sup>).

(3). European colonies: Steering Committee approved text resolution presented by working group (text transmitted Delbog 113 <sup>3</sup>) whereas clauses and declaration approved by affirmative vote 18 with US, Brazil, Dominican Republic abstaining. Operative portion approved by affirmative vote 17, with US, Brazil, Dominican Republic and Chile abstaining. Chile expressed view that proposed commission would serve no practical purpose or achieve affirmative results.

(4). Organic Pact: Steering Committee unanimously approved Mexican proposal inclusion in Pact brief chapters economic cooperation, cultural cooperation and social guarantees. Working committees to prepare texts on basis Mexican draft.

Following articles re specialized organizations approved subcommittee committee II-B:

Article A. For purposes this pact IA specialized organizations shall be those inter-governmental organizations, established by multilateral agreements, with specific functions in technical matters of common interest for American states.

Article B. Council shall maintain register of specialized organizations for purposes envisaged Article 38.

Article C. Specialized organizations enjoy fullest technical autonomy and shall take into account recommendations of council in accordance provisions present chapter.

<sup>1</sup> Not printed; see USDel Report, pp. 84 and 266.

<sup>2</sup> Not printed.

<sup>3</sup> Not printed; see USDel Report, p. 268.



Article D. Specialized organizations shall send to council periodic reports concerning development activities, their budgets and annual quotas.

Article E. Council may enter into agreements with specialized organizations to determine relations between respective organization and organization.

Article F. Specialized organizations should establish cooperative relations with world agencies of same character to coordinate their activities. Upon entering into agreements with international agencies of world-wide character, IA specialized organizations should maintain identity and position as integral parts organization, even when carrying out regional functions of international agencies.

Article G. In determining geographic location of specialized organizations, interests of all American states shall be taken into account.

(5). Rights duties states: Working group committee IA approved four noncontroversial articles inclusion chapter on principles. Considerable sentiment development for following principle "American states condemn war. Victory does not create rights." Argentina stated under explicit instructions insists on second sentence.

(6). Economic matters: Steering Committee decided by 11 votes, US not voting, discuss tomorrow Cuban proposal for following article economic agreement: "No American state may unilaterally apply coercive economic measures which constitutes reprisal or tend force sovereign will of state against which applied".

In working group on private investments (Chapter IV) Mexico, Venezuela, Guatemala continued firm resistance to US position on Article 21 regarding expropriation. Colombia reiterated full support for US. Nicaragua proposed compromise which would terminate Article 21 after words "property rights of nationals" and revise Article 22 to provide prompt negotiation bilateral agreements providing guarantees private investment including reference expropriation. US Del divided opinion strategy whether should press issue, withdraw article entirely or accept compromise. Delegation leaders believe fifty-fifty is best we might get if issue pressed to vote and concerned over impacts such record vote might have on confidence American business in dissenting countries.

Same three countries refuse accept Article 19 B regarding employment foreigners.

Otherwise general agreement Articles 18 and 23 *a* with weak treatment 19 *a* subparagraphs A and B having been disapproved.

Agreement in principle in Committee IV working group was reached on Articles 24-25 substantially along lines of US redrafts, with addition of reference to existing industries as well as those to be developed and statement that when export quotas are applied they should conform as closely as possible to distribution that would obtain in absence of controls. Principal controversy developed over inclusion

of positive obligation to facilitate acquisition of materials needed for economic development. Agreement reached to state this as an objective of national effort, rather than as an obligation. Articles referred to drafting group (US not member).

In working group on Chapter II (economic organisms) following strong statement by Chile and US Committee dropped further consideration of IA Bank. Agreed, Chile abstaining, on resolution asking IA-ECOSOC to study further the possibility and desirability of a bank, and report to special economic conference. Committee also agreed on principle of adding technical unit to staff PAU for study economic development projects rather than special development organization. Most US amendments to Articles 8 and 10 to 14 seemed generally acceptable. Chapter II sent to Drafting Committee (US not a member).

In working group on shipping Ecuador refusal eliminate consular invoice preferences Gran Colombiana would have nullified benefits of already modified Article 28. This and all other articles Chapter VII then eliminated except Articles 27 and 30 (with US amendment) group then agreed write in Article 1B of Geneva Shipping Convention.

BEAULAC

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710.J/4-2548 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*<sup>1</sup>

Bogotá, April 25, 1948.

Delbog 121. Daily Summary No. 20 for Friday April 23.

1. Recognition: Steering Committee approved following two resolutions:

A—"Conference declares that

1. Continuity of diplomatic relations among American states is desirable.

2. Right of maintaining, suspending or resuming diplomatic relations with another government cannot be employed as instrument for individually obtaining unjustified advantages in conformity with international law.

3. Establishment or maintenance of diplomatic relations with government does not signify judgment concerning internal policy".

B—"Considering, that juridical committee has not presented report on recognition *de facto* government; and that is desirable that statute be prepared on matter, conference resolves entrust juridical council with preparation of project and report on recognition *de facto* governments for studying inter American conference".

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<sup>1</sup> Secretary Marshall and party arrived in Washington on April 24 at 9 p. m. Assistant Secretary Armour was designated acting chairman of the Delegation.

Resolution A approved unanimously. Resolution B by 13 affirmative votes including US.

2. Organic Pact: Subcommittee Committee I approved several acceptable articles for chapter on principles. No prospects on drafting chapter on rights, duties, states.

3. Economic matters: Full text economic agreement in present form being sent separate telegram.<sup>2</sup> In Steering Committee Dihigo (Cuba) gave lengthy defense of proposal on economic aggression, referring Rio treaty proscription of aggression as parallel to cardinal principle non-intervention and citing economic aggression as one of worst forms of coercion.

Similar Brazilian proposal for rights, duties, states provides that no state may exercise or stimulate economic or political pressure on another to obtain any advantages whatever. Corominas (Argentina) opposed proposals on ground all types aggression adequately covered by Rio treaty. Working Group Argentina, Bolivia, Brazil, Cuba, Panama, Salvador, US appointed resolve question.

Private investment Working Group approved Chapter IV, except Article 21 and deleting Articles 19A and 22. Tentative agreement reached on following text Article 21: "American States shall take no discriminatory action against investments by virtue of which deprivation of property rights legally acquired by foreign capital or enterprises is carried out for causes or under conditions different from those which constitution or laws of each country established for expropriation of national property. In carrying out expropriation prompt, adequate, and effective compensation shall be provided".

Bolivian proposal for protection of natural products from synthetic competition was withdrawn. Special Working Group approved proposal on commodity agreements and, with US dissenting, approved article permitting trade preferences between contiguous countries.

US draft Articles 24 and 25 approved by Working Group with acceptable amendments.

Working Group on maritime transportation eliminated Articles 28, 29, 31, 32; approved Article 27 as drafted and Article 30 with US amendments. Approved inclusion Article 1 B of Geneva Shipping Convention. Approved Argentine resolution calling for further discussion maritime matters at forthcoming IA economic conference.

4. Pacific settlement: Steering Committee unanimously approved conclusion working group to include in both pacific settlement treaty and Organic Pact, "an obligatory procedure for definite solution to any controversy in such manner that no controversy can fail to be resolved within reasonable time." US, Argentina, Nicaragua and Paraguay

<sup>2</sup> Not printed.



made reservations. US reservation states: "US accepts obligatory pacific settlement procedures for juridical matters and only in optional form for non-juridical matters". Argentina reservation stated that procedure shall only apply to future conflicts and for causes not heretofore existing. Paraguay reserved regarding juridical problems affecting national sovereignty and not covered existing treaties.

5. Social matters: Committee V approved satisfactory statute IA commission women, with article confirming terms of fiscal and administrative relationships with PAU contained in governing board report February 1948.

Committee unanimously approved US resolutions on improvement social services, Beaulac (US) making clear that US does not believe that governmental social service agencies should have exclusive control and that we had no intention of detracting in any way from highly important services rendered by such private agencies as Red Cross and various social service foundations.

Committee deadlocked on Uruguayan project of convention for equal political and civil rights for women. Beaulac explained US position and proposed confining convention to right to vote and be elected to national office. Mexico, Haiti, Peru, Honduras, and Chile also stated unable accept convention.

6. Rights, duties man: Committee VI approved preliminary considerations, preamble and 23 articles of proposed declaration: (1) right of life, liberty, security and integrity of person; (2) right to equality before law; (3) religious freedom and worship; (4) freedom investigation, opinion, expression and dissemination; (5) protection of honor, reputation, private and family life; (6) family and family protection; (7) mothers and children; (8) right to residence, movement and not to be required to leave country of [which he is a national] except by own will; (9) inviolability of home; (10) correspondence; (11) health; (12) education; (13) right to benefits of culture and scientific progress and protection to inventors, authors, et cetera; (14) right to work and just remuneration; (15) right to rest and use of free time; (16) right to social security; (17) right to juridical personality and civil rights; (18) right to justice; (19) right to nationality; (20) right to suffrage; (21) right of assembly; (22) right of association; (23) right to property.

Tate (US) proposed deletion of right of protection to authors, inventors, et cetera, on ground this not essential human right of all people. Although strongly supported by Cuba, article was left unchanged.

BEAULAC

710.J/4-2548 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

BOGOTÁ, April 25, 1948—3 p. m.

Delbog 122. Priority. From Daniels and Armour. In view resolution approved conference re continuity diplomatic relations, suggest Department now take following steps regarding Nicaragua :

(1) Appoint ambassador to Nicaragua and instruct Embassy Managua to seek his agrément.

(2) Send circular telegram diplomatic missions other American republics instructing them inform respective governments that US contemplates appointing ambassador to Nicaragua in near future. [Daniels and Armour.]

BEAULAC

710.J/4-2648 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

BOGOTÁ, April 26, 1948.

Delbog 129. Daily Report No. 21 (for Saturday and Sunday<sup>1</sup>).

1. Organic Pact: Following summarizes articles re organs approved committee II: Juridical Council has permanent committee called IA Juridical Committee of Rio de Janeiro. Re Cultural Council, most of US amendments accepted and similar permanent committee established, although US opposed and abstained. Re Juridical Council, on US motion committee report will contain statement of understanding that all functions on codification of law previously assigned to five committees codification are transferred to Council.

In chapters on principles and rights and duties of states, principal problems for US were :

(a) Article proposed by Argentina that American States condemn war. Victory carries no rights. US insisted second sentence be limited to victory in aggressive war. Finally agreed on "American states condemn war of aggression ; victory carries no rights";

(b) Principle that "American States proclaim fundamental rights of human person without distinction etc". At US insistence committee agreed include statement in record that this does not incorporate declaration rights duties man. US added that so far US concerned, neither does it incorporate any other instrument.

(c) Article stating "jurisdiction of states is exercised over all inhabitants. Nationals and aliens are under same protection and owe same obedience to laws and authorities of country". US obtained reconsideration of article and elimination second sentence. Since this weakens principle as contained in Montevideo convention to which

<sup>1</sup> April 24 and 25.

US had reserved, others decided indicate in record that article does not modify that convention for countries which ratified it.

2. Rights and duties of man: committee VI completed declaration. Remaining articles concern rights of petition, protection against arbitrary arrest, fair trial, asylum, general limitation clause and article that statement of rights does not derogate from other rights not stated. Principal problems for US were:

(a) Article on health stating that every person has right to preservation health through sanitary and social measures. On motion US, accompanying statement will make clear that article indicates no preference between private or public control of medical programs;

(b) Article on right of asylum, which, on motion US, is stated as dependent on domestic legislation as well as international convention;

(c) Cuban proposal for right of resistance is case of denial or evident delay in application of justice. Tie vote and steering committee will decide;

(d) Article on duty to work on which US abstained committee also approved, US opposing, Brazilian proposal requesting Juridical Council study convention to give juridical protection to rights of man.

3. Charter social guarantees: before committee approved charter US again sought avoid definitive conference action by proposing reference document to IA-ECOSOC, although manifesting US adherence to principle of appropriate international action in interests of labor. US voted against approval charter stating US government not consider self bound by its specific terms.

Tie vote in committee on adoption resolution rather than convention re equal civil and political rights for women. Reconsideration Monday.

BEAULAC

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710.J/4-2648: Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

Bogotá, April 26, 1948.

Delbog 128. Weekly Summary No. 3. Major tasks of conference substantially completed. Principal exceptions are pacific settlement treaty and definitive agreement on certain major points in the economic agreement.

Following summarizes status of conference work:

1. Organic Pact: The preamble and chapters on the following subjects have been approved by Committees I and II:

- Nature and Purposes
- Principles
- Collective Security
- Organs



International Conferences  
 Meetings Foreign Ministers  
 The Council  
 Pan American Union  
 Organs of the Council  
 Specialized Organizations  
 Miscellaneous

The following Chapters are still under discussion :

Rights and Duties of States  
 Pacific Settlement  
 Economic Cooperation  
 Cultural Cooperation  
 Social Guarantees  
 Protocolary Provisions

Notwithstanding efforts of the USDel to restrict the rights and duties of states to a few, brief, non-controversial points, the chapter will probably contain considerable verbiage and one or two provisions on which we may have to enter reservations.

2. Pacific Settlement: The principal decision so far taken is the approval of the principle of compulsory settlement for all disputes, with the US reservation reported in Delbog 121. Preparation of the text of the Organic Pact chapter and the Pacific Settlement treaty itself is proceeding slowly.

3. Economic Matters: Work on economic agreement substantially completed Sunday at subcommittee level, including agreement delete commercial policy chapter. US position has been so far sustained in essence on all important issues. US filed reservation on Ecuadorian proposal re parity of prices of raw materials and manufactured goods. On some parts of agreement, drafting not altogether satisfactory from US point of view, but not believed these defects involve basic difficulty. Number of resolutions also approved, most important of which recommend :

- (a) Further study by IA-ECOSOC of IA Bank ;
- (b) Convocation special economic conference some time last three months 1948, IA-ECOSOC to prepare agenda including study based on questionnaire of material requirements American representatives ;
- (c) Study by IA-ECOSOC of improved facilities for financing international trade and report to special economic conference.

4. Juridico-Political Matters: Work on this section of the agenda is completed. The following documents have been approved by the Steering Committee, the last by the Working Committee :

- (a) Resolution on the defense of democracy (Delbog 112<sup>1</sup>).

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<sup>1</sup> Not printed.

- (b) Declaration and resolution on recognition (Delbog 121 <sup>2</sup>).
- (c) Resolution on European colonies (Delbog 113 <sup>3</sup>).
- (d) Declaration rights and duties of man. This is lengthy document whose principal defect is considerable verbiage. The US has reserved its position on a few unacceptable articles.

5. Social and Cultural Matters: Work on this section of the agenda is substantially completed. The following documents have been approved by the committee:

- (a) Resolution referring draft educational charter and similar Colombian project to Cultural Council;
- (b) Statutes commission women;
- (c) US resolution social services;
- (d) Mexican resolution on study conditions working women;
- (e) Haitian resolution on improvement workers' health;
- (f) Charter social guarantees (with US negative vote and reservation);
- (g) Argentine resolution on social justice;

Following items remain under discussion:

- (a) Convention on rights of women;
- (b) US resolution on cultural activities.

BEAULAC

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<sup>2</sup> Dated April 25, p. 60.

<sup>3</sup> Not printed.

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710.J/4-2748 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

Bogotá, April 27, 1948.

Delbog 133. Daily Report No. 22 Monday April 26.

1. Organic Pact. All substantive work completed coordination final text begun.

2. Pacific Settlement: Work on both treaty and articles Organic Pact proceeding slowly in working groups now appears central feature of treaty will be compulsory arbitration ICJ (International Court of Justice) in all cases legal and non-legal. Reference non-legal cases not to be confused with submission *ex aequo et bono* which is recognized separately. Court is to determine whether it has jurisdiction any given case. If decides negatively parties are bound to submit matter to arbitration. US has indicated it may have three reservations: (1) That this government will not undertake submit to ICJ any case not believed properly within competence; (2) that arbitral procedure must be preceded by special compromise; (3) that acceptance jurisdiction ICJ in legal cases subject to limitations contained in declaration in force under article 36, paragraph 2 of statute.

3. Economic Matters: Steering Committee approved, US abstaining, following article for inclusion in chapter on rights and duties states of Organic Pact. "No state may apply or stimulate coercive measures of economic or political character in order force sovereign will of another state and obtain from latter advantages of any nature".

Reports working groups presented to full economic committee but voting postponed until tomorrow. Mexico reopened issue of compensation for expropriation proposing prompt adequate and effective compensation only if not in conflict with constitution.

4. Social and Cultural Matters: US amendment to convention on women's rights limiting it to non-abridgement of rights to vote and hold national office, approved Committee V with eight affirmative votes including US and three abstentions. Separate convention granting equal civil rights also approved, US voting negative.

US cultural resolution approved by acclamation.

Committee also approved, US abstaining, Uruguayan resolution recommending that council of organization establish institute of social guarantees to assure fulfillment charter social guarantees.

5. Caracas selected site tenth conference.

BEAULAC

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710.J/4-2948 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

Bogotá, April 29, 1948.

Delbog 136. Daily Report No. 23 (for April 27 and 28).

1. Economic matters: Major debate full committee has centered around article 21 economic agreement re prompt, adequate and effective compensation for expropriation. Mexico renewed attack on article as conflicting with national constitutions. Joined by Ecuador, Guatemala, Panama, Venezuela. US, after agreeing to attempt by Mexico to compromise which, however, was not generally supported, adhered to position that working group text of article is indispensable minimum for treaty. Intimated that without satisfactory article US could not agree to treaty form. US supported by Brazil, Chile, Colombia, Nicaragua, Peru, Salvador. Qualified support from Argentina, Cuba, Uruguay.

Mexican proposal to delete reference to prompt, adequate and effective compensation, defeated 5 to 14. Cuban amendment to provide for such compensation "in accordance with respective constitution" defeated 9 to 10. Text of article substantially as introduced by US Del finally approved 14 to 5. However, expect that opposing states will make reservations or clarification re their constitutional positions.



Committee also approved satisfactory texts rest of chapter IV (private investments) except amendment to article on double taxation to be voted Thursday, and except for defeat on attempt to obtain binding commitment on employment of foreign technical and managerial personnel.

Committee also approved acceptable text chapter VII (Maritime transportation) and separate chapter on freedom of transit. Haitian resolution declaring that any increase in freight rates constituted discrimination and that steamship lines should give 30 days notice of any contemplated increase, defeated by 9 to 9, and subsequently referred to economic reference.

2. Pacific settlement: Full text treaty Pacific settlement approved by committee. Includes unobjectionable provisions relating to good offices, mediation, conciliation, arbitration. Judicial settlement chapter similar to that previously reported with compulsory reference all cases ICJ and compulsory arbitration all these cases court decides not to be within its competence. Chapters on mediation, conciliation and arbitration generally similar to juridical committee draft, with new provisions re arbitration procedure.

Committee also approved article to effect that aliens entitled no greater protection than nationals, provided local courts available. US opposed and will enter reservation.

Committee approved brief pacific settlement chapter of Organic Pact, containing list pacific settlement procedures, obligation to agree on a procedure, obligation to employ such procedures before reference any controversy to UN, and referring to separate treaty as assurance that all disputes will be settled within reasonable time. Procedure consultation in pacific settlement matters, even for recommending methods of settlement, abandoned completely.

BEAULAC

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710.J/4-3048 : Telegram

*The Ambassador in Colombia (Beaulac) to the Acting Secretary of State*

BOGOTÁ, April 30, 1948—10 a. m.

Delbog 140. Daily Report No. 24 (for April 29). Economic committee finished work approving rest of economic agreement and several miscellaneous resolutions thus completing all substantive work of conference. Cuban proposal on economic aggression in same terms as had been approved for Organic Pact was included in Chapter I (principles). Subcommittee text of Chapter II (technical cooperation) approved with Mexican amendment permitting a country to refuse to

provide information. Chapter III (financial cooperation) adopted together with US proposal to amend article 14 C to read "American states in accordance with provisions of Article 6 agree to extend financial cooperation TEC" and Mexican amendment deleting words in Article 15 relating to private foreign capital. Efforts to provide for progressive reduction double taxation and subject of taxation in general referred to IA-ECOSOC. Cuban amendments to Chapter IV providing annual vacations with pay and protection to workers against arbitrary dismissal were adopted US opposing and filing reservations. Among resolutions approved were US resolution on natural resources conference, resolutions providing for study by IA-ECOSOC of IA Institute of Commerce, IA Bank, IA Development Corporation and air mail rates for books. Buenos Aires selected as seat of special economic conference. Final plenary session Friday morning and signing ceremony at Quinta de Bolivar Friday afternoon.<sup>1</sup>

BEAULAC

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<sup>1</sup> April 30.

### III. RATIFICATION BY THE UNITED STATES OF THE CHARTER OF THE ORGANIZATION OF AMERICAN STATES

710.001/12-3148

*The Acting Secretary of State to President Truman*

WASHINGTON, December 31, 1948.

THE PRESIDENT: The undersigned, the Acting Secretary of State, has the honor to lay before the President, with a view to its transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a certified copy of the Charter of the Organization of American States, formulated at the Ninth International Conference of American States and signed at Bogotá in the English, French, Portuguese, and Spanish languages on April 30, 1948 by the plenipotentiaries of the United States of America and by the plenipotentiaries of the other American republics.<sup>1</sup>

The basic purpose of the Charter is to coordinate and strengthen the inter-American system in the interest of greater efficiency and to meet the demands of changing conditions. Consideration of the remodeling and extension of the cooperative relationships and activities of the

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<sup>1</sup> For text of the Charter, which entered into force for the United States on December 13, 1951, see Department of State Treaties and Other International Acts Series No. 2361, 2 UST 2394, or 119 UNTS 3. For statements by President Truman, June 16, and Ambassador John C. Dreier, United States Representative on the OAS Council, June 19, 1951, concerning ratification of the Charter, see Department of State *Bulletin*, July 2, 1951, p. 34.

American republics was given special impetus by developments during World War II and by the recognition that adjustment of inter-American instruments and agencies should go hand in hand with general international organization for the maintenance of peace and security. Informal conversations, initiated in Washington in the autumn of 1944 between diplomatic representatives of other American republics and officials of this Government with respect to the proposals formulated at Dumbarton Oaks on the establishment of a general international organization, indicated the desirability of steps to develop further the inter-American system. Subsequently, the Inter-American Conference on Problems of War and Peace, held at Mexico City February 21 to March 8, 1945, adopted resolution IX establishing certain broad outlines for reorganizing and strengthening the inter-American system and preparing it for whatever new responsibilities it might assume with the establishment of the world organization, the United Nations. Resolution IX not only provided for certain fundamental changes in the system but also stipulated, among other things, that "The Governing Board of the Pan American Union, availing itself of all Pan American agencies that it deems appropriate, is charged with preparing, beginning May 1, 1945, a draft charter for the improvement and strengthening of the Pan American System." The resulting comprehensive draft "Organic Pact of the Inter-American System" served as the basis of discussions at the conference at Bogotá in the formulation of the Charter.

While the Charter modifies and strengthens the organization of the existing inter-American system, it is basically a continuation of the progressive development of the cooperation initiated by the First International Conference of American States convened in Washington in November 1889 at the invitation of the Secretary of State of the United States.

At the First Conference (1889-1890) the countries represented therein formed an association under the title "The International Union of American Republics." In accordance with recommendations made by that Conference the Secretary of State of the United States organized and established in Washington in 1890 "The Commercial Bureau of the American Republics" which, pursuant to those recommendations, was maintained under the supervision of the Secretary of State and was charged with "the care of all translations and publications and with all correspondence pertaining to the International Union."

Resolutions of subsequent conferences expanded the scope of the cooperation undertaken by the association, and modified the organization of the Bureau and increased its functions. The Second Conference (1901-1902) changed the name of the Bureau to "The Inter-



national Bureau of the American Republics" and placed it under the management of a Governing Board, consisting of the Secretary of State of the United States as its Chairman and the diplomatic representatives of all the governments represented in the Bureau and accredited to the Government of the United States of America. The Fourth Conference (1910) changed the name of the association to "Union of the American Republics" and designated the institution serving as its agent in Washington as the "Pan American Union." A convention relating to the organization of the Pan American Union and to other organs of the Union of the American States (Senate Executive II, 70th Congress, 2d Session) was adopted at the Sixth Conference (1928). While ratifications of that convention were deposited by the United States and fifteen other American republics, it did not enter into force because it was not ratified or adhered to on behalf of all twenty-one American republics as required by Article XIV thereof. As the result of the failure of that convention to enter into force, the organization of the inter-American system has continued to function on the basis of resolutions adopted by the various inter-American conferences.

The inter-American cooperative system has come a long way since the convening of the First Conference in 1889. The Organization of American States established by the present Charter provides a framework, on a treaty basis, for cooperation among the American states in practically all their relations with each other, and in their relationship as a group with the United Nations. The provisions of the Charter appear to be clear and self-explanatory when considered in the light of the history of the inter-American system. Attention is invited, however, to Chapter Two of the United States Delegation's report on the Bogotá Conference, a copy of which is enclosed herewith, for detailed information with respect to the Organization established by the Charter.

It may be pointed out that one of the more important aspects of the reorganization effected by the Charter is that the directive to the Council, previously known as the Governing Board of the Pan American Union, to submit proposals for the combination, adaptation or elimination of existing specialized organizations will result in a reduction in their number and more efficient use of those which are retained. One of the important tasks of the Council, therefore, is the making of the necessary surveys of the status and activities of existing specialized organizations with a view to the discontinuance of those whose maintenance serves no useful purpose.

The Charter will enter into force among the ratifying states when two-thirds of the signatory states have deposited their instruments of ratification, and with respect to the remaining states in the order

in which they deposit their instruments of ratification. The customary right of denunciation is preserved. In order that the Organization may begin to function so far as possible during the interim between signature and entry into force of the Charter, the Bogotá Conference adopted resolution XL providing that :

“1. The agencies that have hitherto functioned as Organs of the System of the Union of American Republics shall immediately adopt the nomenclature and provisions established in the Charter of the Organization of American States.

“2. The new Organs provided for in the Charter shall be established on a provisional basis, in accordance with the Charter.”

This Charter is entirely consistent with the purposes and principles of the United Nations and will facilitate and supplement the larger efforts of that body by promoting the solidarity of the American states, strengthening their collaboration and independence, and, in general, contributing to increased international cooperation. It is specifically provided (Chapter XVI) that “None of the provisions of this Charter shall be construed as impairing the rights and obligations of the Member States under the Charter of the United Nations.” Other provisions point to specific relations between the organs and agencies of the two systems. It is noteworthy that, on special invitation of the Governing Board of the Pan American Union to the Secretary-General of the United Nations, the latter organization was represented at the Bogotá Conference by an Assistant Secretary-General who attended as observer in the name of the United Nations and on behalf of all the countries not directly represented. Moreover, the Bogotá Conference resolved (resolution XXXIX) that the United Nations should be invited to be represented at each Inter-American Conference and each Meeting of Consultation of the Ministers of Foreign Affairs.

Respectfully submitted,

ROBERT A. LOVETT

## POSTPONEMENT OF THE PROJECTED BUENOS AIRES ECONOMIC CONFERENCE

810.50 Buenos Aires/11-2648: Circular airgram

*The Secretary of State to Diplomatic Representatives in the American  
Republics*

CONFIDENTIAL

WASHINGTON, November 26, 1948—12:10 p. m.

In response to any local Government inquiries regarding the United States attitude on possible postponement of Buenos Aires Economic Conference, the following will serve as guidance:

The United States did not propose the economic conference, but agreed to Resolution IX of the Rio Conference in 1947 calling for such conference and further supported the idea at Bogotá.<sup>1</sup> The United States therefore feels committed, must and will cooperate fully toward the success of the conference, and has been active in Washington preparations. Particularly in view of the responsibility attributed to the United States for continued postponement of economic conference which the Latin American countries wished held 1943-45, the Department considers it important that the United States not be laid open to charges of attempting to sabotage the Buenos Aires Conference.

The Department recognizes the validity of certain questions raised regarding the usefulness of the conference. At the same time, the Department believes there are certain advantages attainable, particularly regarding use of the conference as probably a better sounding board than IA-ECOSOC in Washington or other medium in order to let Latin America know definitely what the United States is prepared and not prepared to do regarding Latin American economic development and other issues. Also, the conference offers occasion to sign a formal agreement to settle the problem of reservations to the Economic Agreement of Bogotá.<sup>2</sup> The Department hopes by the end of January to place before the IA-ECOSOC, for the information of the Latin American Governments, its position and specific proposals regarding most issues expected to be important on the Buenos Aires agenda.

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<sup>1</sup> See the report of the American Delegation on the Inter-American Conference for the Maintenance of Continental Peace and Security, Quitandinha, Brazil, August 15-September 2, 1947 (Department of State Publication No. 3016), p. 42, and the report of the American Delegation on the Ninth International Conference of American States, Bogotá, Colombia, March 30-May 2, 1948 (Department of State Publication No. 3263), resolution VIII, p. 233.

<sup>2</sup> For documentation on the Bogotá Conference, see pp. 1 ff.



It is of course possible that our proposals will not meet Latin American expectations and thus strengthen any latent Latin American ideas against holding the conference.

If, however, strong feeling exists among majority of the Latin American Governments against holding the Buenos Aires Conference, the United States would naturally abide by such majority view.

There is considerable Departmental opinion that multilateral conferences may be unsatisfactory means of achieving desires of Latin American countries for economic cooperation and development. These desires are almost without exception of bilateral character, that is, individual Latin country and the United States. While this Government still favors where practicable discussion and formulation of multilateral general principles, a more realistic approach to these problems might be through bilateral negotiations to achieve realization [*realistic?*] agreements or understandings covering economic development and hemisphere cooperation and including capital investment, taxation, strategic resources, inland transportation, aviation, shipping and general commercial problems.

The foregoing is for your background information.

The Department does not suggest that you take the initiative, but if local officials request the United States view regarding postponement or cancellation of the conference, you should state that the United States will be guided by the majority view of all the American Governments, and you may suggest that if such Governments wish to take action against holding the conference, this might most effectively be done by instructing their representatives on the IA-ECOSOC to exchange ideas with their colleagues. As between postponement and cancellation, the United States would prefer the latter.

MARSHALL

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810.50 Buenos Aires/2-949 : Circular airgram

*The Secretary of State to Diplomatic Representatives in the American Republics*

WASHINGTON, February 9, 1949—8:25 a. m.

At a plenary session on February 7, and on the basis of replies from a majority of the American governments to a recent inquiry by the Inter-American Economic and Social Council regarding possible postponement of the Buenos Aires Economic Conference, the Council postponed the Conference from March 28 to a date sometime in the latter half of 1949. The governments have been informed by telegram, and an announcement issued to the press on February 9.

When the Council has completed preparations for the Conference, and after consultation with the Argentine Government, a new date will be fixed. In their replies to the inquiry by the Council regarding possible postponement, a number of the American governments stressed that the Conference should not be postponed beyond the second half of the year. The reason for the present postponement was inability of the Council to complete the necessary preparatory work, due largely to a failure by most governments to provide economic information needed by the Council for its pre-conference studies and reports.

ACHESON

## NON-PARTICIPATION OF THE UNITED STATES IN THE FIRST MEETING OF THE AMERICAN COMMITTEE ON DEPENDENT TERRITORIES

810.014/12-148 : Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in the  
American Republics Except Argentina and Guatemala*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, December 1, 1948—1: 15 p. m.

According to reports received in the Department, fourteen countries have now appointed representatives to the American Committee on Dependent Territories, provided for in Resolution XXXIII of the Bogotá Conference.<sup>2</sup> Convocation of the Committee by the Council of the Organization of American States, after consultation with the Cuban government, will probably follow soon. Bolivia, Brazil, Chile, the Dominican Republic, Nicaragua, Uruguay and the United States have not designated representatives to the Committee.

For your information, the slowness with which appointments to this Committee have been made and the general lack of background on the part of many of the appointees in the substantive aspects involved lead the Department to question the seriousness of the interest of more than a few American governments in this Committee and to doubt that it will, when convoked, become much more than a sounding board for well-known grievances of those few countries and an occasion for propaganda attacks of elements antagonistic both to our European friends and to the solidarity of the Americas.

On the other hand, the Department is reluctant to decide against participation in a group established as the result of majority action of an Inter-American conference both because of the unfortunate effect on relations with the other American republics and our general policy to accept majority decisions of international organizations even when the United States originally opposed their adoption.

Prior to arriving at a final decision on participation in the Committee, the Department desires to ascertain the extent to which its views are shared by the other American republics which do not have a particular and direct interest in the matters to be taken up. You are, therefore, requested to approach the Foreign Minister, outline to

<sup>1</sup> Sent to the Embassies in Argentina and Guatemala for information.

<sup>2</sup> See report of the American delegation to the Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948 (Department of State Publication No. 3263) p. 268.



him the following statement of U.S. views, and report his comments. It should be made clear in such discussion that this Government has made no final decision on the appointment of a representative and is anxious to learn the Foreign Minister's views in order to be in a better position to estimate accurately whether the activities of the Committee are likely to attain any useful results.

According to the pertinent Bogotá resolution, it appears that the two kinds of situations which the Committee is charged with studying and reporting on are (1) those involving territory, the sovereignty of which is in dispute between American and non-American states and (2) other non-self-governing territories long held by European states in the Western Hemisphere.

With regard to the former, the United States holds that the Committee should not, under any circumstances, attempt to act as a court of law, since the procedures of a strictly Inter-American committee do not allow the full and equal presentation of the positions of all countries concerned, which the U.S. believes to be a matter of elementary justice. The U.S. is not aware of any existing controversies over territory held by a non-American state in the Western Hemisphere which cannot be properly dealt with either by direct negotiation or through the procedures set forth in the Charter of the UN, including the Statute of the International Court of Justice. In these circumstances, the U.S. would oppose the Committee's taking any action which, by supporting claims of one country to territory in dispute, would prejudice the opportunity for a peaceful settlement in accordance with procedures recognized in international law.

With regard to the second type of situation, the U.S., in line with its traditional policies and practices, supports firmly the provisions contained in the "Declaration Regarding Non-Self-Governing Territories" (Chap. XI of the UN Charter)<sup>3</sup> and notes particularly the "sacred trust" therein assumed by countries administering such territories. It holds further that, if there are instances in which non-administering governments believe administering governments to be delinquent in fulfilling their obligations under this article, the procedures set forth in the UN Charter should be followed in dealing with the issues raised. In this connection, you may refer to the fact that the UN General Assembly has recently approved continuance for one year of the Special Committee on Information Transmitted Under Article 73 e of the Charter. This Committee is charged with examining the information transmitted to the Secretary General of the UN under the UN Charter provision which requires countries having responsibilities for the administration of non-self-governing territories to submit statistical and other information of a technical nature

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<sup>3</sup> Department of State Treaty Series No. 993, or 59 Stat. 1031.

relating to economic, social, and educational conditions in those territories.

You may point out further that any move on the part of this proposed Committee to obtain information from inside a non-self-governing territory would almost inevitably be regarded by the controlling country as intervention in its domestic affairs, violating a principle to which the American republics have given special devotion.

You should say that, with the above considerations in mind, the U.S. is strongly of the opinion that the American republics, which are united in opposition to totalitarian threats to their freedom and independence, should take no action at this crucial time in world affairs which would cause dissension and bitterness among the free nations of the world and thereby give aid and comfort to the forces that are seeking to undermine and destroy democratic institutions everywhere.

Please telegraph report of conversation.

LOVETT

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810.014/12-2248

*Memorandum by Mr. Edward A. Jamison, Special Assistant, Division of Special Inter-American Affairs to the Director, Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

WASHINGTON, December 22, 1948.

Following is a summary of the initial reactions which have been received from all the countries to which the circular airgram of December 1, 1948, on U.S. views regarding the American Committee on Dependent Territories, was sent.

Five of the six countries, besides the United States—Brazil, Chile, the Dominican Republic, Nicaragua and Uruguay—which have not yet designated representatives have indicated that their views on the work of the Committee are substantially the same as those of the United States. The Brazilian reply indicated that Brazil would probably not appoint a representative, but that a final decision would soon be made. Chile indicated that it would probably not make an appointment unless an "incident" in the Antarctic should arouse public opinion in that country. The Nicaraguan Foreign Minister stated that his country would follow the United States lead as to action and policy. No clear decision on the question of appointment is indicated in the replies from Uruguay, the Dominican Republic or Bolivia. It had previously been indicated from Montevideo that Uruguay might feel impelled to appoint a representative if Argentine pressure were exerted.

The Bolivian reply is somewhat confused, since it appears to indicate, on the one hand, that that government regards the Committee as unnecessarily overlapping UN matters, but on the other hand feels that the preparation of a report on the situation is properly within the sphere of the Inter-American Council of Jurists.

The Foreign Ministers of two governments, Haiti and Paraguay, which have appointed representatives, informed our Ambassadors that their views were in substantial agreement with those of the United States, while the Foreign Minister of Costa Rica, expressing his personal opinion in conformity with that of the United States, promised to refer the matter to the attention of the Junta, which has presumably been otherwise occupied in the intervening period.

Qualified agreement with the statement of this Government's views was expressed by the Foreign Ministers of Colombia, Honduras and Mexico. The Foreign Minister of Colombia, although he regarded the meeting without enthusiasm, indicated that there were some useful things which the Committee might do without attempting to set itself up as a court of law. Although requesting opportunity for further study, the Foreign Minister of Mexico tentatively commented that he felt it highly desirable for the U.S. to participate in the Committee and mentioned specifically that this might be a stabilizing factor in a meeting which might otherwise be utilized for the issuance of diatribes against certain states. Although admitting that other procedures should be utilized for dealing with existing controversies and that no effort should be made to obtain information from within non-self-governing territories, the Mexican Foreign Minister expressed the view that information proffered to the Committee by elements within such territories, if obtained from the United Nations or the controlling government, should be considered by the Committee.

The Foreign Ministers of Ecuador, Cuba, Panama and El Salvador indicated that they wished opportunity to study further the general question of the work of the Committee. Although tentative responses were received from the Foreign Ministers of Costa Rica and Mexico, as indicated above, they also indicated that further study would be made.

No reply has, of course, been received from Venezuela.

It seems that no great enthusiasm for active work on the part of the American Committee on Dependent Territories exists, except with respect to the presumed attitudes of Argentina and Guatemala. It also appears that if all the countries appointed representatives, the United States would have considerable support for its views, and that this would come from some of the larger and more important of the Latin American governments. (I recall however that a similar survey on this general question made prior to the Bogotá Conference reflected



a situation not much different from that indicated above, and that much of the sympathy for U.S. views which was then expressed evaporated rather quickly under pressure of events at the Conference.)

If further appointments are not made, particularly by Brazil, Chile, Uruguay and the United States, it seems to me almost certain that the meeting will be dominated by Argentina, Guatemala, Cuba and, perhaps, Mexico, and that the reports made by the Committee will be extreme in their condemnation of the European governments concerned.

It is particularly interesting to note that the airgram's reference to the undesirability of any action on the part of the American states at this crucial time in world affairs which would cause dissension and bitterness among friendly nations of the world appears to have been the most impressive single part of that communication. Special note of this paragraph was reflected in the replies from a number of countries.

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*Editorial Note*

The American Committee on Dependent Territories held its first meeting at Habana, March 15–July 21, 1949. Fourteen countries appointed representatives: Argentina, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Panama, Paraguay, Peru, and Venezuela. Brazil, Bolivia, Chile, the Dominican Republic, Nicaragua, Uruguay, and the United States did not appoint representatives. For information on the meeting, see *Annals of the Organization of American States* (Washington, Pan American Union, 1949), volume I, pages 134, 142, 268, 327, and 389.

# UNITED STATES POLICY TOWARD THE GUATEMALA- UNITED KINGDOM CONTROVERSY WITH RESPECT TO BELIZE

714.44A15/2-2748 : Telegram

*The Secretary of State to the Guatemalan Minister of Foreign  
Relations (Muñoz Meany)*

WASHINGTON, March 3, 1948.

I have the honor to acknowledge the receipt of Your Excellency's telegram of February 27 concerning the action of the British Government in sending cruisers to Belize.<sup>1</sup> My Government has taken note of Your Excellency's statements and continues to hold the confident hope that the Governments of Guatemala and Great Britain will soon find means of bringing the long-standing Belize controversy to a mutually satisfactory settlement.

GEORGE C. MARSHALL

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<sup>1</sup> Telegram of February 27 not printed. In despatch 13, March 3, not printed, the Vice Consul at Belize (Springer) reported that following the arrival at Belize on February 27 of the British cruiser H.M.S. *Sheffield*, which was reinforced on March 1 by H.M.S. *Devonshire*, elaborate preparations were made, under the supervision of Vice-Adm. Sir William George Tennant, to repel a possible Guatemalan invasion (714.44A15/3-348). For information on the cablegram of February 27 by the Guatemalan Minister of Foreign Affairs, Enrique Muñoz Meany, to the Pan American Union on this subject, and its consideration by the Governing Board in special meetings on March 17 and 18, 1948, see the *Bulletin of the Pan American Union*, vol. 82, 1948, p. 284.

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714.44A15/3-1248 : Telegram

*The Ambassador in Guatemala (Kyle) to the Secretary of State*

CONFIDENTIAL

GUATEMALA, March 12, 1948—5 p. m.

133. Embassy informed closure Guatemala-British Honduras border causing serious losses to Weiss-Fricker mahogany company and other American lumbering concerns (Embtel 122, March 9<sup>1</sup>). According H. M. Weis[s] of reference firm, his efforts here to obtain special permit to continue exporting logs through Belize unavailing as Foreign Minister determined to keep border closed as long as British cruiser remains off Belize.

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<sup>1</sup> Not printed.

In view foregoing situation Dept may wish to suggest to British advisability taking initiative toward removing present tension by withdrawing war vessel (see Embtel 109, March 3<sup>2</sup>). I have good reason to believe British are weighing possible effects such action.

In my opinion present situation is building up solidarity of other American representatives with Guatemalan efforts to force us to take positive stand at Bogotá<sup>3</sup> against foreign possessions in continent. In view adverse effects of border closing on American business interests, I hope to have opportunity this once to bring matter informally to attention Foreign Minister and British Minister.<sup>4</sup>

KYLE

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<sup>2</sup> Not printed.

<sup>3</sup> For documentation on the Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948, see pp. 1 ff.

<sup>4</sup> In airgram 70, March 15, not printed, Kyle reported that the Embassy had been in touch with the Guatemalan Foreign Minister, the British Minister, and Weiss, and that: "The problem is purely political. The position taken by the Foreign Minister . . . is that the border will remain closed until the British have withdrawn the cruiser from Belize." (714.44A15/3-1548)

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714.44A15/3-648 : Telegram

*The Secretary of State to the Embassy in Guatemala*

CONFIDENTIAL

WASHINGTON, March 15, 1948—2 p. m.

99. Reference is made to FonMin's assurances to you (urtel 119, March 6<sup>1</sup>) as follows: "Guatemala limiting itself defensive steps with all precautions against creating further incidents".

This information was conveyed confidentially to British Emb here. Latter has now informed Dept that on basis Muñoz Meany's assurances to you British Govt has decided withdraw H.M.S. *Sheffield*. You should inform FonMin of above at earliest possible moment and in so doing emphasize the fervent hope this Govt that the Guatemalan Govt will refrain from any use of publicity regarding withdrawal for propaganda purposes. British Govt has similarly been requested to keep FonMin's assurances to you as confidential.

You may explain to FonMin the continued interest of US in solution dispute in manner satisfactory to both parties and hope that withdrawal *Sheffield* will contribute to creation favorable atmosphere to that end. Propaganda publicity on either side would tend to destroy utility British gesture.

MARSHALL

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<sup>1</sup> Not printed.



714.44A15/3-1648

*Memorandum of Telephone Conversation, by the Chief of the Division  
of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

WASHINGTON, March 16, 1948.

Mr. Hadow<sup>1</sup> called to inquire whether the Department had been able to get in touch with Ambassador Kyle to request him to approach the Guatemalan authorities with regard to the withdrawal of the *Sheffield*. I informed him that we had received a telegram this morning stating that the Ambassador had spoken with the Guatemalan Foreign Minister yesterday, who had given him categorical assurances that the withdrawal would not be used for propaganda purposes. There would naturally be some publicity on the withdrawal itself. Mr. Hadow expressed great concern with regard to the publicity, but I informed him that we could see little use in the withdrawal of the *Sheffield* were it not known, and I thought there was little cause for concern in as much as Muñoz Meany had stated that the withdrawal would not be used for propaganda purposes. I believe Mr. Hadow was in agreement that no real damage would arise from an announcement that the *Sheffield* had been withdrawn if the publicity were restricted merely to that.

Mr. Hadow was informed that the Guatemalan Foreign Minister had expressed an interest in learning whether the British were likewise evacuating the military forces brought to Belize on the *Sheffield*. Mr. Hadow replied that the number of such forces was very small indeed, and that he thought it outrageous that the Foreign Minister should insist on their withdrawal. It was, in fact, his understanding that they were remaining. I suggested that there was nothing outrageous in Muñoz Meany's attitude, which in view of the present situation was perfectly natural. He had merely expressed an interest and had not insisted upon or requested anything. I further indicated to Mr. Hadow that I thought it might be helpful if the troops were withdrawn on the understanding that Guatemala would likewise withdraw the forces it had sent to the frontier area. Mr. Hadow indicated that he would be glad to take this under serious consideration if we were willing to act as intermediaries. I told him that I would, of course, have to receive approval of the proposal from higher officers in the Department, but that I felt reasonably sure there would be no difficulty.<sup>2</sup> Mr. Hadow mentioned the difficulty there would be in removing the forces once the cruisers had departed, intimating that Great Britain may have difficulty in sending in another ship to remove them.

<sup>1</sup> Robert Henry Hadow, Counselor of the British Embassy.

<sup>2</sup> Assistant Secretary of State Norman Armour indicated his approval of the proposal in a memorandum of March 16, not printed.

In closing Mr. Hadow stated that the *Sheffield* "had already left or at least would leave today."<sup>3</sup>

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<sup>3</sup> The Vice Consul at Belize (Springer) reported in telegram 9, March 17, 8 p. m., not printed, as follows: "*Sheffield* left for Jamaica dawn 16th. 200 troops left ashore, 40 Cayo, 160 at airport and Belize barracks. Expected stay three months." (714.44A15/3-1748)

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714.44A15/3-1648 : Telegram

*The Ambassador in Guatemala (Kyle) to the Secretary of State*

CONFIDENTIAL

GUATEMALA, March 16, 1948—6 p. m.

US URGENT

144. Discussing withdrawal today of British cruiser *Sheffield*, Foreign Minister told me his government still concerned by presence unknown number British troops Belize which it regards as invasion threat; therefore is reversing decision re reopening border pending report from Guatemalan Consul at Belize.<sup>1</sup>

Reiterating Department's sincere interest as stated Deptels 99 and 101,<sup>2</sup> I expressed earnest hope Guatemala may accept this British conciliatory move as adequate assurances non-aggressive intentions and make next gesture toward normality by reopening border. Muñoz Meany replied he could not accept British assurances at face value, but did reassure me his government would not use withdrawal cruiser for propaganda purposes and that immediately upon receipt report from Consul at Belize and further conference with President Arevalo<sup>3</sup> he would communicate with me again.

Foreseeing possibility Guatemala may attempt use presence British troops at Belize as pretext keep alive issue, I suggest advisability Department discussing situation with Ambassador Gonzalez Arevalo.<sup>4</sup> Can Department inform Embassy for communication Foreign Minister if British troops now in Belize represent only normal peacetime garrison.<sup>5</sup>

KYLE

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<sup>1</sup> Ambassador Kyle reported in telegram 150, March 19, 4 p. m., not printed, that the Foreign Minister had said closure of the border with British Honduras and other restrictions would be maintained until all doubt of British hostility or intimidation were removed (714.44A15/3-1948).

<sup>2</sup> Telegram 101, March 15, 6 p. m. not printed.

<sup>3</sup> Juan José Arévalo, Guatemalan President.

<sup>4</sup> Ismael Gonzalez Arévalo, Guatemalan Ambassador in the United States. He presented his credentials on March 15.

<sup>5</sup> In telegram 106, March 17, 6 p. m., Secretary Marshall instructed Ambassador Kyle as follows: "British Emb this morning informed Dept that British Govt considers its troops in Belize not in excess of normal peace-time garrison (urtel 144, March 16). You may so inform FonMin." (714.44A15/1648)

714.44A15/3-1848

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

WASHINGTON, March 18, 1948.

Participants: Sr. Ismael Gonzalez Arévalo, Ambassador of Guatemala  
 Mr. Paul C. Daniels, Director for ARA  
 Robert Newbegin—CPA

Ambassador Gonzalez Arévalo called late this afternoon to present a memorandum on the Belize dispute.<sup>1</sup> The memorandum touched on the following points:

1. That the Bogotá Conference, with reference to the concrete case of Belize, adopt a resolution "condemning any act of armed provocation by an extra-continental power . . ." etc.
2. Guatemala's interest in the success of the Conference and the maintenance of inter-American solidarity. With this in view, the hope that the U.S. would help find a solution.
3. Action on the part of the U.S. to effect the immediate withdrawal of the British forces which disembarked in Belize.
4. Possible mediation on the part of the U.S. to find a specific, just, and equitable solution of the controversy.
5. The necessity that the strict territorial *status quo* be maintained, and that England postpone any plans for federation or colonization of the territory.

Mr. Daniels said that he would endeavor to let Ambassador Gonzalez Arévalo have a reply by next Tuesday at the latest<sup>2</sup> in order that he might acquaint his Government with our views when he proceeds to Guatemala City next week.

The Ambassador was asked if he had any further information with regard to his Government's position vis-à-vis Costa Rica. He replied that he did not.

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<sup>1</sup> Not printed.

<sup>2</sup> See memorandum of March 23, p. 86.

818.00/3-2348

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

WASHINGTON, March 23, 1948.

Participants: Sr. Ismael Gonzalez Arévalo, Ambassador of Guatemala  
 Mr. Paul C. Daniels, Director for ARA  
 Robert Newbegin—CPA

Ambassador Gonzalez Arévalo called at the Department's request in order that Mr. Daniels might deliver to him the Department's



memorandum regarding Belize in reply to the memorandum which the Ambassador had delivered on March 18. The Ambassador read the Department's memorandum with care and made no immediate comment. Mr. Daniels expressed the opinion that the memorandum did not constitute perhaps exactly what the Guatemalan Government had desired but reflected the U.S. viewpoint under present world conditions, as had been brought out in previous conversations with the Ambassador.

With reference to the possibility of the simultaneous withdrawal of the recently arrived British troops from Belize and the withdrawal of the Guatemalan troops to their previous stations, the Ambassador expressed himself as in accord, and stated that at that time Guatemala would be willing to re-open the frontier. Mr. Daniels inquired whether there was any specific reason why the Guatemalan Government was continuing to keep the frontier closed, and was informed that this was due to political considerations in connection with difficulties with Great Britain. He indicated no possibility of any immediate change in that policy.

[Here follows discussion of various other subjects.]

R[OBERT] N[EWBEGIN]

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714.44A15/3-1848

*The Department of State to the Guatemalan Embassy*

MEMORANDUM

The Department of State acknowledges the receipt of the Confidential Memorandum from the Embassy of Guatemala, delivered to the Department on March 18, 1948, with regard to the Belize dispute. The following comment is submitted in connection with the numbered paragraphs <sup>1</sup> therein.

A. The suggestion that the Bogotá Conference adopt a resolution with reference to the concrete case of Belize raises questions similar to those created by the resolution on European colonies now on the agenda. The views of the United States Government on the latter are already known to the Guatemalan Government.<sup>2</sup> As the Guatemalan Foreign Minister has been informed by the United States Ambassador, certain of the territories now in dispute between American and non-American powers have been the cause of friction over a long period. The United States is a party to none of these disputes but has followed a scrupulously objective and impartial position with respect to claims

<sup>1</sup> See memorandum of conversation by the Chief of the Division of Central America and Panama Affairs (Newbegin), March 18, p. 85.

<sup>2</sup> See circular telegram, March 5, 1948, 4 a. m., p. 10.

of either party. It is the position of the United States that such disputes should be settled by peaceful means available to all and consistent with the United Nations charter.<sup>3</sup> It accordingly would not seem appropriate for the American nations unilaterally to take a position in favor of one of the parties to this dispute at a conference from which the other is excluded. Such action would tend to militate against and possibly prevent a calm and judicial solution of the problem. For these reasons the United States cannot support the adoption of such a resolution.

B. The United States Government, like that of Guatemala, is most sincere in its desire for the complete success of the Ninth Inter-American Conference at Bogotá, and is therefore confident that the Guatemalan Government will refrain in so far as may be possible from pressing at Bogotá for consideration of a dispute with a non-American democratic power. This is especially desirable in view of the critical world situation when the need for unity among the democratic countries of the world is daily more urgent and apparent. The United States Government has long been anxious that a proper and equitable solution of the dispute be reached. It was therefore with much satisfaction that it learned that the Governments of Guatemala and Great Britain were willing to refer the problem to the International Court of Justice which is eminently qualified to render a just decision. It was a cause of real concern when the two parties could not agree on the terms of reference. The United States is still hopeful that a formula may be found which would permit a decision by the Court and would be happy to be of any assistance to that end. In this connection it would appreciate any suggestions which the Guatemalan Government may care to make.

C. The United States will be glad to urge the immediate withdrawal of the British forces which recently disembarked in Belize on the understanding that the Guatemalan Government would be willing, simultaneously with the proposed British action, to withdraw to their previous stations the armed forces which it sent to the frontier, following the disembarkment of the British, and would reopen the frontier.

D. The United States is always ready to extend its informal good offices to the end that a pacific, just and equitable solution be reached. Any action of this nation would, of course, be dependent on a formal request from the two parties. As stated in paragraph B above, the United States Government is firmly convinced that the most satisfactory procedure in the present instance would be for the problem to be presented to the International Court of Justice.

E. The United States Government does not consider that it could with propriety take any action with regard to this paragraph. It may

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<sup>3</sup> Department of State Treaty Series No. 993, or 59 Stat. 1031.

be stated, however, for the confidential information of the Guatemalan Government that the United States Government has reason to believe that the British Government does not contemplate any change in the immediate future in the territorial status of the area under dispute.

WASHINGTON, March 23, 1948.

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714.44A15/3-1548

*The Chief of the Division of Central America and Panama Affairs  
(Newbegin) to the Counselor of the British Embassy (Hadow)*

PERSONAL AND CONFIDENTIAL

WASHINGTON, March 25, 1948.

DEAR HADOW: I refer to your letter of March 15, 1948<sup>1</sup> with regard to the Draft Resolution dated March 8 which was presented to the Pan American Union by the Guatemalan Government with regard to British Honduras. You are quite correct in your belief that the Rio Treaty comes into effect in accordance with Article 22 upon the deposit of ratifications by two-thirds of the signatory states.<sup>2</sup> As you know, no such number of ratifications has as yet been deposited. I am unable to identify any provision for the implementation of the Rio Treaty in case of an emergency before the deposit of the necessary ratifications.

The Guatemalan note to the Pan American Union proposed a resolution to be submitted to the conference at Bogotá. However, the proposal was not made in time for any action to be taken which might place the resolution on the agenda. Accordingly, no action will be taken in this regard prior to the conference itself. For your confidential information, I may state that the United States Government has expressed to the Guatemalan Government its hope that the British-Honduras dispute will not be pressed at Bogotá, and has further informed it that it could not support the resolution suggested by Guatemala.

Sincerely yours,

ROBERT NEWBEGIN

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<sup>1</sup> Not printed.

<sup>2</sup> Inter-American treaty of reciprocal assistance, Rio de Janeiro, September 2, 1947; Department of State Treaties and Other International Acts Series No. 1838, or 62 Stat. 1681; the treaty entered into force for the ratifying states December 3, 1948. For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.; for final act, reservation by Guatemala regarding Belize, and statement by the United States with reference to reservations by other Delegations concerning questions of sovereignty over territories within the region defined in the Treaty, see report of the United States Delegation on the conference, Department of State Publication No. 3016, pp. 45, 56, and 57, respectively.



714.44A15/4-148

*Memorandum of Telephone Conversation, by the Deputy Director of  
the Office of American Republic Affairs (Woodward)*

CONFIDENTIAL

WASHINGTON, April 1, 1948.

Subject: Lack of Progress in Effecting Withdrawal of British  
Troops from Belize

I telephoned Mr. Hadow to mention to him that we had received a telegram from our Embassy at Guatemala indicating that the Guatemalan Government had replied on March 24 to the British note of March 3<sup>1</sup> concerning possible arbitration of the Belize controversy. The Guatemalan reply stated that Guatemala is not disposed, for the time being, to treat the question of arbitration because the presence of British troops in the disputed territory creates an unfavorable atmosphere for this purpose. Mr. Hadow said that he had already discussed this note with Mr. Newbegin and had given him a copy.

I mentioned again to Mr. Hadow that we had hoped the British Government would be disposed to withdraw the troops from Belize in order that we might have a better chance of fulfilling the British wish that discussion concerning the Guatemalan resolution on colonies at the Bogotá Conference be kept at a minimum. Mr. Hadow said that he understood this aspiration and that he would continue to try to persuade his Government to remove the troops, even though he has received an indication from London that the British Government is very reluctant to do this because of the feeling of uncertainty in Belize.

ROBERT F. WOODWARD

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<sup>1</sup> None printed.

714.44A15/4-348: Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

SECRET

BOGOTÁ, April 3, 1948—11 p. m.

Delbog 28. In conversation this morning between García Granados of Guatemala and Daniels,<sup>1</sup> former expressed following views re colonial problem:

1. Guatemala is prepared to reestablish normal conditions in relations with Belize, and specifically to reopen the frontier, as soon as all British troops which recently arrived there are completely withdrawn.

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<sup>1</sup> Jorge García Granados, Jr., Attaché at the Guatemalan Embassy in the United States, and Vice Chairman of the Guatemalan Delegation to the Bogotá Conference: Paul C. Daniels, Director, Office of American Republic Affairs, and one of the Delegates Plenipotentiary to the Conference.

2. Guatemala hoped that there would be no change in political status of British Honduras pending settlement of dispute, and that for time being no action would be taken by British Government in introducing refugees or other colonists.

3. Guatemala was still willing to have Belize dispute arbitrated by International Court of Justice, but not merely on interpretation of treaty.<sup>2</sup> Guatemala felt all circumstances leading to conclusion of treaty in first instance should be taken into account and arbitration should be on basis *ex aequo et bono*.

Garcia Granados added that his government did not desire to cause trouble with Great Britain in regard to their proposal regarding European colonies, but that there was an overwhelming support of Guatemalan thesis among American Republics. He felt that if British could take positive action and give adequate assurances along foregoing lines it would be much easier for conference to avoid taking action by resolution or otherwise objectionable to Great Britain.

Daniels reiterated Department's position as set forth in recent memorandum to Guatemalan Embassy and other documents.

Please approach British Government urgently and urge action and assurances in line with Guatemalan suggestions listed above. Any such assurances obtained by US in confidence from British would be held by US here and used to the best of our ability in handling colonial problem here in hope of reaching solution which can be unanimously supported by twenty-one American Republics and at same time reasonably acceptable to British. It is believed to be in British interest to avoid open disagreement with American Republics so far as possible.

Garcia Granados further suggested that conference might create a permanent commission of American States to continue study of European colonial problem in western hemisphere. Before making any commitments would welcome expression Department's views.

BEAULAC

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<sup>2</sup> Anglo-Guatemalan convention relating to the boundary of British Honduras, signed at Guatemala, April 30, 1859; for text, see *British and Foreign State Papers*, vol. XLIX, p. 7.

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714.44A15/4-348 : Telegram

*The Acting Secretary of State to the Embassy in Colombia*

SECRET

WASHINGTON, April 19, 1948—7 p. m.

Bogdel 139. For Daniels. Brit Emb Wash has informed Dept in letter addressed to Woodward by Counselor Hadow as follows (re-Delbog 28, Apr. 3, 11 p. m.) :

"With the utmost desire to be cooperative and, particularly, to assist the United States Delegation at Bogotá in its difficult task, His Majesty's Government do not see that these one-sided proposals contain

anything new which could be used as a basis for negotiation. I am further instructed to express to you *informally* our apprehensions as to the mainspring of Guatemalan action since the Arévalo Government came into power."

The letter continues with itemized indications of alleged Communist tendencies on part of Guatemalan officials and states *inter alia* "It would therefore seem necessary that a thorough investigation should be made of the Guatemalan Government's connexions and motives before support is lent, by the Pan American Conference, to Guatemalan demands or pretensions."

LOVETT

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714.44A15/4-2048: Telegram

*The Ambassador in Guatemala (Kyle) to the Secretary of State*

CONFIDENTIAL

GUATEMALA, April 20, 1948—4 p. m.

198. It becomes increasingly obvious that Guatemalan closure Belize border being maintained in hopes exerting pressure on United States for support Belize question in view heavy financial losses suffered US lumbering companies (Embtel 150 March 23 and A-70 March 15<sup>1</sup>). According representatives Weiss-Fricker Mahogany Company that firm already faces possible quarter million dollar loss and operation ITW<sup>2</sup> now serious predicament. British interests not believed materially affected.

Despite personal assurance Foreign Minister Muñoz Meany to Weiss-Fricker before departure Bogotá that lumbering firms would be permitted resume operations across border, said permit, although reliably reported to have approval entire Cabinet, Foreign Office advisory committee on Belize and President Arévalo, being withheld by Acting Foreign Minister upon explicit instructions Muñoz Meany from Bogotá.

Embassy's informal representations Acting Foreign Minister have produced only indefinite statement that permit probably forthcoming "in about 15 days". Lawyer for Weiss-Fricker says company's recourse exhausted and only strong diplomatic protest will result favorable action.

In view situation discussion with Muñoz Meany at Bogotá may be advisable. I expect discuss case informally with Arévalo at earliest opportunity and would appreciate any specific instructions Department may have.

KYLE

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<sup>1</sup> Neither printed.

<sup>2</sup> I. T. Williams and Company.



714.44A15/4-2048 : Telegram

*The Acting Secretary of State to the Embassy in Guatemala*

CONFIDENTIAL

WASHINGTON, April 23, 1948—4 p. m.

154. It is not considered desirable (urtel 198, Apr 20) to raise question Guatemalan closure Belize border at Bogotá. Dept approves your discussing case informally with Arévalo on basis of American interests involved as distinct from main British-Guatemalan dispute. Guatemala might relax controls sufficiently to permit Weiss-Fricker to resume lumbering operations without necessarily reopening entire border.<sup>1</sup>

LOVETT

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<sup>1</sup> Ambassador Kyle informed the Secretary of State in despatch 326, June 24, not printed, that the American lumbering companies were granted a provisional two months' permit to transit the border during the remaining period of the dry season, and this enabled them to salvage something from threatened heavy losses. However, according to Mr. Weiss, they did suffer substantial financial loss due to the long interruption of normal operations (714.44A15/6-2448).

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714.44A15/5-2148

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

WASHINGTON, June 14, 1948.

Ambassador Gonzalez Arévalo called this afternoon at my request in order that I might present him personally with the Department's reply to his confidential memorandum of May 21<sup>1</sup> suggesting U.S. mediation of the Belize dispute. The Ambassador read the Department's memorandum in my presence and stated that he understood it perfectly, particularly the suggestion made in the latter portion with regard to making an effort to reduce existing tension. The Ambassador appeared to be well pleased with the Department's reply.

I informed the Ambassador that in as much as his memorandum had been marked "confidential" the Department had up to now observed its confidential nature. I told him, however, that it would appear desirable to us, provided he had no objection, to now bring his memorandum together with the Department's reply to the attention of the British, but that we would not, of course, wish to do this without his consent. I suggested that not only would we like to keep the British informed as to what we have done, but since the next step in this procedure would have to be taken by the Guatemalans it might be helpful to them if the British had advance information. The Am-

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<sup>1</sup> Guatemalan memorandum of May 21 not printed.

bassador said that his memorandum had been marked "confidential" and that he had suggested to his Government that the proposal be kept confidential only to avoid any publicity being given to it. He said that he had no objection to our now bringing it to the attention of the British. He was informed that we would make no recommendation whatsoever to the British as to whether that Government should request mediation. In this respect, our view was the same as it was vis-à-vis the Guatemalan Government to which we were making no suggestion either. It is at perfect liberty to formally request mediation or not if it so desires.

The Ambassador was informed that it would be desirable in any case not to give publicity to the matter in case the British should not wish to request mediation. To do so might only add to the difficulties in reaching a final settlement. In this the Ambassador concurred.

R[OBERT] N[EWBEGIN]

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714.44A15/5-2148

*The Department of State to the Guatemalan Embassy*

MEMORANDUM

CONFIDENTIAL

The Department of State refers to the confidential memorandum from the Embassy of Guatemala dated May 21, 1948<sup>1</sup> in which inquiry is made as to whether the United States would be disposed to mediate the controversy between Guatemala and Great Britain over the Belize territory in the event that the Governments of Guatemala and Great Britain should both make such a request. As is known, the Department of State has repeatedly over a long period of time shown its interest in the conclusion of a mutually satisfactory settlement of this problem between Guatemala and Great Britain, and has always been and continues to be willing to be of such assistance as might be feasible in bringing about a general agreement. If the Governments of Guatemala and Great Britain should decide to request the Government of the United States to mediate this dispute, it would appear desirable that the governments which are parties to the dispute should, upon presenting this formal request, already have exerted every effort to reduce existing tension.

WASHINGTON, June 14, 1948.

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<sup>1</sup> Not printed.

714.44A15/7-1748 : Telegram

*The Ambassador in Guatemala (Kyle) to the Secretary of State*

US URGENT

GUATEMALA, July 17, 1948—11 a. m.

306. Foreign Office yesterday handed me note transmitting its note dated July 15 to British Minister proposing that both governments formally request US mediation on Belize controversy. Full text follows by despatch.<sup>1</sup>

Guatemalan note to British observes that notwithstanding fact both parties accept in principle desirability submission dispute International Court of Justice, it has not been possible harmonize their viewpoint as to terms of reference; that such impasse has been aggravated by presence British troops and warships Belize, by British proposals settle European refugees in Belize, and for inclusion this territory in British Caribbean Federation; and that Guatemalan Government now desires give new proof its good will by suggesting mediation friendly state; then reads:

"In virtue of which, I have the honor of requesting Your Excellency to transmit to the British Government the formal proposal which, by means of this note and through Your Excellency, the Guatemalan Government makes to the effect that both governments agree to solicit jointly the mediation of the US Government, in the confidence that said government, as a loyal friend of both parties, will gladly offer itself to act as mediator in this controversy which has been, and is, a grave obstacle to our good relations and to mutual international cooperation."

KYLE

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<sup>1</sup> Not printed.

714.44A15/10-2848 : Telegram

*The Chargé in Guatemala (Wells) to the Secretary of State*

CONFIDENTIAL

GUATEMALA, October 28, 1948—6 a. m.

URGENT

422. Have received Foreign Office note transmitting copy British note rejecting mediation Belize dispute by US (Embtel 418, October 27<sup>1</sup>). Contains expression deep appreciation our generous offer to act as mediator, and has following sentence: "The attitude of Great Britain in this matter, much to the regret of the Guatemalan Government, has maintained, maintains and will maintain an inconvenient and disagreeable tension in the relations between Guatemala and England and constitutes a powerful obstacle to good understanding and to international cooperation". Full text follows despatch No. 535.<sup>1</sup>

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<sup>1</sup> Not printed.



Foreign Office yesterday issued statement announcing British rejection mediation, calling attention universal and especially continental opinion this evidence Guatemala's goodwill and effort seek solution civilized means, and to alleged British intransigent and obstructive attitude. Statement published all papers. No mention made British protest reported reference telegram.

WELLS

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714.44A15/10-2648

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Barber)*

WASHINGTON, October 29, 1948.

Participants: Mr. F. R. Hoyer Millar, Minister, British Embassy  
Mr. Paul C. Daniels, Director, ARA  
Mr. Willard F. Barber, Chief, CPA

Mr. Hoyer Millar called today at his request to inform the Department of the latest developments regarding the Belize controversy. He left with Mr. Daniels a copy of the note delivered by the British Minister to the Guatemalan Foreign Office on October 26.<sup>1</sup> He particularly directed attention to the last paragraph which reads as follows: "In informing Your Excellency of the above I have the honour to add that His Majesty's Government would be prepared, if once the legal issue were settled by the International Court in the appropriate way, to do their best, whatever the decision of the Court might be, to dispose of any outstanding problems with Guatemala on a friendly basis." (The preceding four paragraphs stated that the British Government is willing to submit the dispute to the World Court but did not wish to have the problem submitted to mediation by the United States Government.)

There ensued a brief discussion as to a procedure which might be used in order to arrive at a basis for submission of the whole question to the World Court for determination there. Mr. Daniels expressed the hope that the British Foreign Office could study the question on the basis of terms of reference which would submit simultaneously for the Court's consideration the strictly legal and treaty issues involved as well as the *ex aequo et bono* principles to which the Guatemalan Government attaches such great importance. While reiterating the British Government's position that it could not think of turning over any territory to another power except on a strictly legal basis, Mr. Hoyer Millar said that he would request London to do some more thinking along the lines of Mr. Daniels' suggestion.

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<sup>1</sup> Not printed.

Mr. Hoyer Millar also read excerpts from a press statement which he said had been issued by the Guatemalan Government in a matter of hours after the receipt of the British note. He felt that it was a coincidence, and an unfortunate one that this happened to be the time when the annual visit was paid to all Caribbean ports (except British Guiana) by units of the British West Indies fleet. A cruiser and a destroyer are scheduled to visit Belize from November 5-9. Mr. Hoyer Millar added that no matter how categoric a statement that there was no connection between the delivery of the Belize note and the visit of the cruisers, the Guatemalans would probably be alarmed. He hoped that the State Department could put a damper on any such alarms which were, he said, to be deplored.

Mr. Daniels and Mr. Barber referred to the possibility that publicity arising out of the visit of the ships might induce one or two South American Governments to appoint delegates to the Havana Committee on European Colonies.<sup>2</sup> (At the moment the required number of fourteen designations has not yet been reached). Mr. Hoyer Millar said that the naval visits had been planned for a long time; that there was no connection with the Belize mediation note; that he hoped it would not have an effect on the Colonies Committee; but that in any event he would inform London of that possibility.

Mr. Hoyer Millar made brief reference to a recent Guatemalan Government decree pertaining to schools and school books which should teach that the Belize area forms an integral part of the Guatemalan nation. A copy, in translation, of a newspaper article published on October 15, was left with Mr. Daniels.

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<sup>2</sup> For resolution XXXIII of the final act, Bogotá Conference on the subject of European colonies in America, see the report of the United States Delegation on the Conference, Department of State Publication No. 3263, p. 268. This resolution, based on the original Guatemala project, provided for establishment of the American Committee on Dependent Territories to study the situation and problems of each of the American territories under non-American control: the Committee was to meet in Habana, as soon as 14 members had been appointed.

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714.44A15/11-848

*The Chargé in Guatemala (Wells) to the Secretary of State*

No. 553

GUATEMALA, November 8, 1948.

SIR: Referring to the Embassy's despatch no. 544 of November 3 and previous communications with regard to the Belize dispute, I have the honor to enclose the text of a note dated November 5 from the British Minister to the Ministry for Foreign Affairs in which the British Government, commenting upon the Guatemalan note of October 29,<sup>1</sup> declines to accept the Guatemalan statement that it has been

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<sup>1</sup> None printed.

responsible for closing the door to all understanding in the matter as a result of having declined to agree to the proposal for mediation by the United States.

It will be observed that this latest British note reiterates the British position that the legal claim of Guatemala to sovereignty over Belize territory first be resolved, and repeats the offer contained in the British note of October 26 "to do their best to dispose of any outstanding problems with Guatemala on a friendly basis" once the legal question is adjudicated. This important point in the previous British communication was entirely ignored in the Guatemalan reply of October 29.

According to the British Minister, the enclosed note is being released to the press in London on Monday morning, November 8, and the Guatemalan Ministry for Foreign Affairs was so informed as a matter of courtesy.

Respectfully yours,

MILTON K. WELLS  
*Chargé d'Affaires ad interim*

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714.44A15/11-2248 : Telegram

*The Chargé in Guatemala (Wells) to the Secretary of State*

GUATEMALA, November 22, 1948—11 a. m.

453. Despatch follows with text lengthy Guatemalan reply British note November 5 (Embdes 553, November 8)<sup>1</sup> salient point being statement that if British Government sincerely wishes see just solution Belize controversy then it should accept either of two Guatemalan proposals for judgment by international court *ex aequo et bono* basis or mediation by US, or finally "to propose another new method to which Guatemalan Government would give its best consideration". Document contains extensive justification for insistence *ex aequo et bono* principle, and reiterates viewpoints Guatemalan note October 29 transmitted Embdes 544, November 3.<sup>2</sup>

WELLS

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<sup>1</sup> None printed.

<sup>2</sup> Not printed.



CONTINUANCE BY THE UNITED STATES OF DIPLOMATIC  
RELATIONS WITH NEW GOVERNMENTS ON THE BASIS  
OF THE BOGOTÁ RESOLUTION AND CONSULTATION  
WITH OTHER AMERICAN REPUBLICS

*Final Act of the Ninth International Conference of American States,  
Bogotá, March 30–May 2, 1948*<sup>1</sup>

[Extract]

*XXXV. Exercise of the Right of Legation*

WHEREAS:

The American States have taken countless practical measures to strengthen their cooperation in economic, social, political, cultural, juridical and military matters;

The Charter of the Organization of American States recognizes the mutual advantages derived from inter-American solidarity, and affords the Organization permanence and continuity;

The development of the activities and the full benefits of inter-American cooperation can be realized more effectively if continuous and friendly relations are maintained among the States.

The Ninth International Conference of American States *Declares*:

1. That continuity of diplomatic relations among the American States is desirable.

2. That the right of maintaining, suspending or renewing diplomatic relations with another government shall not be exercised as a means of individually obtaining unjustified advantages under international law.

3. That the establishment or maintenance of diplomatic relations with a government does not imply any judgment upon the domestic policy of that government.

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<sup>1</sup> Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948: Report of the Delegation of the United States of America with Related Documents (hereinafter cited as USDel Report), p. 271. See also paper of the Policy Planning Staff, March 15, 1948 entitled "To Establish the Policy of the Department Regarding the Recognition of New Governments", p. 17.

I. NICARAGUA<sup>1</sup>

S17.01/1-1248: Circular telegram

*The Secretary of State to American Diplomatic Representatives in the American Republics*

WASHINGTON, January 12, 1948—9 a. m.

For your info and use in any discussion with FonMin there follows summary of opinion on Nicaraguan recognition as result Dept cirtels Dec 31 and Jan 7.<sup>2</sup>

Only two nations have officially recognized Román,<sup>3</sup> namely, Costa Rica and Dominican Rep.

Peru, Brazil, Argentina, Colombia, Haiti, Honduras, Paraguay, are not changing their position now but hope for solution perhaps thru PAU before Bogotá Conference.

Bolivia, Chile, Cuba, Guatemala, Venezuela, Salvador have expressed opposition to recognition.

Mexico and Panama though much opposed would consider recognition only if majority already recognized.

Ecuador's position probably opposition. No reply received from Uruguay.

MARSHALL

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<sup>1</sup> For documentation on United States policies of non-intervention and non-recognition with respect to Nicaraguan political developments in 1947, see *Foreign Relations*, 1947, vol. VIII, pp. 841 ff.

<sup>2</sup> For circular telegram of December 31, 1947, 4 a. m., see *Foreign Relations*, 1947, vol. VIII, p. 880. The Department instructed the Chiefs of Mission in the other American Republics (excepting Nicaragua, Costa Rica, and the Dominican Republic) to consult with the Foreign Ministers of the countries to which they were accredited and to ascertain their views in regard to the Nicaraguan situation. The Department indicated that its views in regard to the Nicaraguan matter would be largely influenced by the views of the other American Republics. Telegram of January 7, 1948, not printed.

<sup>3</sup> Victor Manuel Román y Reyes, *de facto* President of Nicaragua. On expiration of General Anastasio Somoza's presidential term, he transferred the presidency to Leonardo Arguello on May 1, 1947; the Somoza *coup d'état* of May 26-27 transferred the administration to Benjamin Lacayo Sacasa; and, finally, the August election of a Constituent Assembly, resulted in the formation of a new Government with Victor Román as the President, August 15, 1947.

S17.00/2-748

*The Chargé in Nicaragua (Bernbaum) to the Secretary of State*

No. 80

MANAGUA, February 7, 1948.

SIR: With reference to previous communications from this Embassy regarding conversations with Drs. Luis Manuel DeBayle and Carlos Cuadra Pasos,<sup>1</sup> I have the honor to report that both gentlemen visited

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<sup>1</sup> *De facto* Foreign Minister; leader of a small group of intellectuals of the Conservative Party, respectively.

my home at Las Piedrecitas this afternoon by appointment made at their request. The subject of the conversation was political conciliation and its effect on possible recognition.

Foreseeing what was coming, I immediately made it clear in courteous but none the less decisive terms that I could not in any manner exceed the limits of my instructions on our non-intervention policy. I pointed out that whatever importance I might have was due entirely to my representative character and that any deviation from my instructions could only be counter-productive in the sense of encouraging them to believe that the Department would do something that its non-intervention policy would prevent it from doing. With this point clear, both gentlemen initiated a discussion of their respective viewpoints regarding the possibilities of averting a revolution through conciliation followed by recognition.

At this point of stalemate, Dr. DeBayle asked that I convey the viewpoints expressed to the Department. I answered that their viewpoints were already well known to the Department and that I would be glad to repeat them. In the course of the ensuing conversation, I made the observation that the situation appeared to be so critical as to render necessary immediate and effective action to avert what appeared to be an impending civil war which threatened to spread beyond Nicaragua's borders. I made clear our preoccupation over recent developments involving, in Nicaragua, the clandestine arrival of surplus four-motored bombers, as well as of many tons of munitions from sources other than the United States, and referred in the same vein to the bellicose preparations reportedly being made by the Nicaraguan opposition. These developments, I stated had tended to place the decisions in the hands of the military, and rendered all the more necessary prompt action to bring about a political agreement which might effectively remove the danger. Upon Dr. DeBayle's statement that Somoza had often expressed his willingness to come to an agreement with General Chamorro,<sup>2</sup> I stated that the situation was obviously difficult and required the greatest exercise of good faith and sacrifice by all, in the interests of Nicaraguan peace. I added that the foregoing represented only my personal appraisal of the situation, and did not in any way signify the expression of any departmental policy or conditions for recognition. I repeated, in this regard, that the problem was Nicaragua's, as was the solution.

This interview served only to highlight the apparently irreconcilable conflict which is rapidly leading Nicaragua to a possibly bloody civil war. Although well aware of the dangers inherent in the situation and of the remedies which are necessary to avert the looming catastrophe,

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<sup>2</sup> Gen. Emiliano Chamorro Vargas, head of the Conservative Party since 1933.



Dr. DeBayle continues to concentrate his attention on what may charitably be termed a token agreement with recognition, rather than political conciliation, as its objective. Clearly desperately anxious for any solution which might avert a revolution, Dr. Carlos Cuadra Pasos sees himself in the hopeless position of working with the progressively limited means offered him by Somoza to convince his Party to give up its warlike plans.

The essence of the problem is that the final decisions are today, more than ever, in the hands of the military, represented by Generals Somoza and Chamorro. As seen from Managua, and subject to any unforeseen developments in Guatemala, recourse to arms can be averted only by Somoza's willingness to offer concessions considerably more generous to the opposition than those within DeBayle's power to grant. The possibilities of such action appear to have been rendered remote by the lift to Somoza's morale from receipt of the two surplus Liberator bombers and of large stocks of munitions (probably from the Dominican Republic). The unforeseen developments mentioned above relate to the possibility that the revolution may, at least for the moment, be canceled by the last-minute withdrawal of assistance by the Guatemalan government and utilization of its territory as a base of operations.

Respectfully yours,

MAURICE M. BERNBAUM

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817.00/2-1248

*The Chargé in Nicaragua (Bernbaum) to the Secretary of State*

No. 87

MANAGUA, February 12, 1948.

SIR: With reference to this Embassy's despatch No. 80 of February 7, 1948, and previous communications regarding negotiations for a political agreement, I have the honor to report on conversations held yesterday morning at the Embassy with Dr. Carlos Cuadra Pasos and Marcial Erasmo Solis and yesterday afternoon at Las Piedrecitas with the *de facto* Foreign Minister, Dr. Luis Manuel DeBayle.

The gist of all of the conversations was that a definite arrangement, based on Dr. Cuadra Pasos' original proposal, appeared to have been reached, subject to assurances, or at least reasonably good prospects, of recognition by the United States. As reported in this Embassy's memorandum of conversation dated January 9, 1948,<sup>1</sup> with Dr. Cuadra Pasos, the proposal was for the holding of free elections in two years, various guarantees that the elections would be free, and participation of the Conservative Party in the national and local governments as well as in the judiciary and foreign services. An important feature of

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<sup>1</sup> Not printed.

the proposal was that General Chamorro be consulted and that in the event of his refusal to adhere, Dr. Cuadra Pasos and his followers would go ahead without him.<sup>2</sup>

With the pending agreement clearly based on the possibilities of securing United States recognition, both groups were anxious to receive some advance indication from the Embassy that this would actually be the case. To General Somoza, as quoted by Dr. DeBayle, such assurances would be required to convince *de facto* President, Dr. Victor Román, and the newly formed Congress of the necessity for shortening their terms to the demanded two-year period. As regards the Conservatives who frankly admitted being only a minority group within the Party, advance assurances of recognition were hoped for as a means of either forcing General Chamorro into acceding to the agreement or of forcing him to give up his revolutionary plans after the extension of recognition.

In assuring them that I would be glad to transmit their request to the Department, I reiterated the now well-worn phrases regarding our non-recognition policy as preventing any participation by us in the final solution, as well as any action which might influence any political decisions taken. To their request for an expression of the Department's thinking on the subject of Nicaragua, I read the following excerpt from Mr. Paul Daniels' memorandum of conversation of December 10 with Dr. Guillermo Sevilla Sacasa: <sup>3</sup>

"I . . . suggested that it might be desirable for the Nicaraguans to work out some solution which could permit a transition into more stable political conditions with consequent benefits which should be appreciated by most, if not all, Nicaraguans."

In leaving my home yesterday afternoon Dr. DeBayle stated that I should anticipate a request from General Somoza in the near future for a meeting to be held at my home. My response was that I would be glad to see General Somoza and that I was certain that Somoza by now understood, as did DeBayle, the limitations of any action which might be taken by the Embassy and by the Department in accordance with our non-intervention policy.

The Department's comments are respectfully requested.

Respectfully yours,

MAURICE M. BERNBAUM

<sup>2</sup> Chargé Bernbaum reported in despatch 104, February 27, not printed, that the political agreement had been signed the day before by Cuadra Pasos, General Somoza, and *de facto* President Victor Román y Reyes (817.00/2-2748). In despatch 130, March 8, the Ambassador in Guatemala (Kyle) transmitted the text of public statement dated March 2 (given to the press on March 8) by General Emiliano Chamorro, in his capacity as head of the Conservative Party and President of its national committee, repudiating the political pact negotiated by Carlos Cuadra Pasos with General Somoza and the *de facto* regime (817.00/3-848).

<sup>3</sup> For memorandum of conversation of the Director for the Office of American Republic Affairs (Daniels) with the Nicaraguan Ambassador (Sevilla Sacasa), see *Foreign Relations*, 1947, vol. VIII, p. 879.

S17.00/3-348

*The Chargé in Nicaragua (Bernbaum) to the Secretary of State*

[Extracts]

CONFIDENTIAL

MANAGUA, March 3, 1948.

No. 116

SIR: I have the honor to report on a lengthy conversation held at my home last night with General Anastasio Somoza at his request. The subjects covered were: the political situation, with special emphasis on the conciliation pact recently negotiated by him with Dr. Carlos Cuadra Pasos; possible participation by the *de facto* Government in the Bogotá conference and the question of recognition; United States policy with regard to the belligerent utilization abroad of surplus American military equipment and American soldiers of fortune; the origin and character of the munitions landed at Puerto Cabezas during the period January 19-25, 1948; and the Costa Rican situation.

## POLITICAL SITUATION

Shortly after his arrival, General Somoza launched upon a long monologue regarding the conciliation pacts and their anticipated effect in bringing about political tranquility. . . .

General Somoza repeatedly mentioned his firm desire to guarantee free elections in 1951 in the belief that his moderate and fair handling of the political situation during the intervening period would so settle the political situation as to render it relatively safe for him to relinquish power if required to do so by the elections. He expressed his awareness of the lack of confidence in opposition circles over the ultimate freedom of the elections, and stated that he would even go to the length of jointly requesting this Embassy to guarantee the freedom of the elections if requested by the opposition to do so. He hastily added, however, that the Embassy had, unfortunately, already demonstrated its inability to accept the responsibility for such guarantees (see this Embassy's despatch No. 104 of February 27, 1948<sup>1</sup>). After confirming the inability of this Embassy to make or accept such guarantees in accordance with our non-intervention and non-participation policy, I observed that with both parties apparently ready and eager to abide by the results of free elections, it would be a horrible pity for a civil war to take place, owing only to the lack of guarantees necessary to satisfy one group that such elections would actually be free.

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<sup>1</sup> Not printed.



POSSIBLE PARTICIPATION BY THE DE FACTO GOVERNMENT IN THE  
BOGOTÁ CONFERENCE

Referring to indications that the *de facto* Nicaraguan Government might be invited to the Bogotá Conference, General Somoza expressed some doubts regarding the desirability of subjecting his delegation to the position of a poor relative without a vote and whose only access at the meeting would be to the few countries (Costa Rica and Dominican Republic) to which he had been formally introduced. He expressed the hope that recognition would come before the Bogotá Conference in order that Nicaragua might attend with dignity and be in a position to render its invariable cooperation to the United States.

When asked by him whether an invitation would, in my opinion, signify eventual recognition, I stated that I was naturally not in a position to answer the question but that I could venture the personal opinion that participation in the Bogotá Conference might constitute an opportunity to his Government to put forth its maximum efforts to achieve a durable political compromise satisfactory to the majority of the Nicaraguan people. Such a development, I added, could not help but have a good effect abroad. To his allegation that this constituted a vicious circle in that recognition was the key to political tranquility, I ventured the statement that I had observed a growing political intranquility culminating in revolutionary threats even before the May 26 *coup* which led to non-recognition, and was forced by my own experience to believe in the strong possibility that such intranquility might exist even after recognition in the absence of a political settlement satisfactory to the majority of the people. I emphasized, however, that this was merely a personal opinion and that events would demonstrate the true state of affairs.

UNITED STATES POLICY WITH REGARD TO THE BELLIGERENT UTILIZA-  
TION ABROAD OF SURPLUS AMERICAN MILITARY EQUIPMENT AND OF  
AMERICAN SOLDIERS OF FORTUNE

Having in mind . . . repeated unconfirmed reports of the employment by Somoza of numerous American pilots, [I] took the occasion to reiterate to General Somoza our anxiety over the possible utilization against Americans of surplus United States military equipment and citizens. With regard to the former, I expressed to Somoza our appreciation over his cooperation in keeping the two Liberator bombers grounded and my feeling of gratification upon having learned from Dr. Luis Manuel DeBayle that their practice flight recently had been in contravention of his orders (see memorandum of conversation with Luis Manuel DeBayle of February 19, 1948 <sup>2</sup>). . . .

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<sup>2</sup> Not printed.

With regard to the problem of American citizen adventurers, I referred to the Department's well known and highly publicized call to all Americans living abroad not to take part in the politics of other countries. This was, I stated, the basis of the Embassy's request to all Americans in Nicaragua not to participate in politics or under any circumstances to engage in military activities for either the government or opposition. . . .

To General Somoza's laughing comment that he would at least desire to use American commercial pilots in the event of emergency, I answered that such utilization would be contrary to our policies and could only serve to place us in a difficult position which I was certain he would not desire. . . . Without saying so in so many words, I clearly indicated that the Department of State would be most happy if General Somoza were to dispense with the services of any soldiers of fortune of American nationality.

Expressing his desire to cooperate with the United States in every way possible, General Somoza presented the dilemma in which he found himself—deprived of the official services of United States military personnel such as Colonel Greco<sup>3</sup> and very much in need of such services, he was forced to turn to disreputable characters . . . as the only alternatives. To my comment that we would be very much happier if he secured such assistance from non-Americans, he replied that Americans, no matter how disreputable, were the only ones in whom he would have any confidence. I did not comment any further, except to reiterate the deep preoccupation of the Department of State and the difficult position in which it finds itself through the service in the Nicaraguan Air Force and Guardia Nacional of American citizens.

#### THE ORIGIN AND CHARACTER OF THE MUNITIONS LANDED AT PUERTO CABEZAS

During the course of the conversation mentioned above on the B-24's, I asked General Somoza whether he would be in a position to give me any pertinent descriptions of the munitions which had been delivered previously at Puerto Cabezas by four flights of C-46 aircraft, which might assist in closing the loopholes which permitted their illegal departure from the United States. After a short pause, General Somoza assured me that none of the munitions, which he conceded had arrived on the C-46's, were of American manufacture or had come from the United States. He assured me that all of the equipment was of European origin and make. He answered in the affirmative when immediately queried whether they had originally come from Brazil and

<sup>3</sup> Lt. Col. John Greco, Chief of the United States Military Ground Mission; the Military Mission was withdrawn in July, 1947. (817.20 Missions/2-1448)

appeared to be most relieved when I returned to the point that my primary interest was in verifying the illegal export from the United States of military equipment and added that I did not desire to embarrass him. In view of Somoza's admission that the thirty-odd Venezuelans had arrived on one of the C-46's with the munitions, and the fact that we both knew where they had come from, it was clear, even if unspoken, that the origin of the planes and of the munitions had been the Dominican Republic. . . .

The conversation lasted three hours during which Somoza protested his friendship for and desire to cooperate with the United States at every opportunity. We parted in the most friendly manner possible and with his statement that he would return as soon as permitted by circumstances and my convenience. I told him, as I had previously told Dr. DeBayle, that I would be glad to see him at my home at any time. . . .

*Comment:*

Although impressed by Somoza's clear desire to make his pact with Cuadra Pasos a success in order to insure recognition, I did not see any indication that he was yet ready to concede enough to the opposition to jeopardize his continuation in power. He was clearly counting on an invitation to the Bogotá Conference as a prelude to general recognition which would solidify his control and permit a trip to the United States for a long overdue operation.

While probable that Somoza would utilize all means at hand to counter a dangerous revolution, I am inclined to believe, in view of his repeated protestations of cooperation and the desire for recognition, that he will minimize utilization of the two surplus Liberator bombers as well as refrain from at least openly employing American adventurers. . . .

Added to the information previously available regarding the B-24 Venezuelan revolutionary incident <sup>4</sup> (Somoza's admissions and attitude leave little doubt of the central part played by the Dominican Republic in the revolutionary plot against Venezuela) is Somoza's admission that the Dominican Republic was the source of the arms as well as of the Venezuelan revolutionaries landed at Puerto Cabezas during January 19-25.

General Somoza's careful exposition of his non-intervention policy in Costa Rica <sup>5</sup> follows repeated assurances of the same nature from *de facto* Foreign Minister DeBayle and may be attributed to the de-

<sup>4</sup> For documentation on this subject, see pp. 756 ff.

<sup>5</sup> For documentation on this subject, see pp. 488 ff.



sire to dissipate any suspicious attitudes regarding his conduct which might jeopardize recognition. Although there have been numerous allegedly reliable reports of Somoza's military assistance to the Picado-Calderon Guardia faction,<sup>6</sup> the lack thus far of any confirmatory evidence from Costa Rica would indicate that Somoza has been telling the truth. If so, this may be classified as one of the benefits thus far derived from non-recognition.

Respectfully yours,

MAURICE M. BERNBAUM

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<sup>6</sup> Teodoro Picado Michalski, Costa Rican President, 1944-48; Rafael Angel Calderón Guardia, presidential candidate, defeated by Otilio Ulate, in the presidential election of February 8, 1948.

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710.J/3-948: Circular telegram

*The Secretary of State to Diplomatic Representatives in the  
American Republics*

RESTRICTED

WASHINGTON, March 9, 1948—7 a. m.

2037. Gov Bd March 8 approved by vote 14 to 5 Committee report on Nicaraguan participation in Bog Conf summarized Depcirtel Feb 27, 3 p. m.<sup>1</sup> US voted in favor stating this action implied no change in relations between US and *de facto* govt Nicaragua.

MARSHALL

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<sup>1</sup> *Ante*, p. 9.

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817.01/3-2448: Telegram

*The Secretary of State to the Embassy in Brazil*

SECRET

WASHINGTON, March 24, 1948—6 p. m.

239. For Emb info only Braz Emb Washington has approached Dept inquiring whether this Govt disposed to recognize Nicaragua now in company with Brazil and Mexico. Braz basis of inquiry (1) Nicaragua has been invited to Bogotá Conference, (2) unless Nicaragua recognized, difficult to deal with Nicaraguan delegates at Bogotá, and (3) Nicaraguan Govt now stable and circumstances discouraging recognition at earlier date have now disappeared.

Dept is unable to favorably immediately consider Braz proposal. Nicaragua invited to Bogotá as matter formality and no difficulty has been encountered in dealing with Nicaraguan delegates at either UN or in PAU. Dept feels that the moment is not opportune to grant recognition. However, if at Bogotá Conference a general resolution should be approved pointing towards renewal relations with Nicaragua this Govt would of course be disposed to lend favorable consideration, making known its position to all American republics.

This telegram purely for info Emb in case subject should be raised by Braz FonMin.

MARSHALL

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817.01/4-3048 : Circular telegram

*The Secretary of State to American Diplomatic Officers in the American Republics Except Nicaragua*<sup>1</sup>

WASHINGTON, April 30, 1948—2 a. m.

In view of resolution ninth International Conference of American States at Bogotá concerning desirability of continuity of diplomatic relations among American republics US Govt contemplates appointing an Ambassador to Nicaragua in near future.

Please communicate this information to govt to which you are accredited.<sup>2</sup>

MARSHALL

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<sup>1</sup> Repeated to the Embassy in Nicaragua for information only.

<sup>2</sup> In Note No. 368 of May 5, 1948, not printed, the Embassy in Nicaragua advised the Foreign Office of official recognition and requested approval for the appointment as Ambassador of George P. Shaw; the Chargé informed the Department in despatches 229 and 230 of May 6, not printed, that the mission's request for an agrément had been granted. For Department of State press release of May 6, "United States prepared to resume diplomatic relations with Nicaragua", see Department of State *Bulletin*, May 30, 1948, p. 716.

## II. COSTA RICA

### *Editorial Note*

For documentation on the Costa Rican presidential election, civil war, and invasion by armed forces from Nicaragua, and United States participation in bilateral and multilateral remedial measures, see pages 488 ff. With particular reference to the question of recognition of the Costa Rican regime, see telegram 117, May 3, 1948, 6 p. m. to the Embassy in Costa Rica, and memorandum of telephone conversation by Mr. Woodward, June 22, 1948, pages 525 and 529.

## III. PARAGUAY

834.00/6-348 : Telegram

*The Ambassador in Paraguay (Warren) to the Secretary of State*

CONFIDENTIAL

ASUNCIÓN, June 3, 1948.

263. President Morinigo<sup>1</sup> resigned at 0030 on demand of Felipe

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<sup>1</sup> Gen. Higinio Morinigo.

Molas Lopez <sup>2</sup> and Mario Mallorquin <sup>3</sup> representing the civil forces of the revolution and in obedience to instruction from Colonel Montanaro, Military Commander <sup>4</sup> of the revolt. President Supreme Court Juan Manuel Frutos takes oath this morning as Provisional President. . . .

WARREN

<sup>2</sup> Interventor of the National University.

<sup>3</sup> Director of Lands and Colonization.

<sup>4</sup> Col. Carlos Montanaro, Asunción garrison commander. Other leaders of the police-army coup were Chief of Police Liberto Rodríguez, Maj. Adalberto Canata, Commander of one of the Cavalry Regiments, and Abel Dos Santos, Mayor of Asunción. (Despatch 297, June 15, from Asunción, 834.00/6-1548.)

834.00/6-748 : Telegram

*The Ambassador in Paraguay (Warren) to the Secretary of State*

CONFIDENTIAL

ASUNCIÓN, June 7, 1948—2 p. m.

US URGENT

280. Re Embtel 277, June 5.<sup>1</sup> Diplomatic Corps met 11 a. m. today. Agreed on following:

1. Have no official contact with Frutos Government pending receipt instructions from respective Foreign Offices.
2. Notify Corps Dean as soon as reply received from respective governments.
3. Dean to call meeting of Corps when all replies received, or if something special arises requiring attention.

No formal agreement prepared. From discussion seemed evident all missions represented expected extension of recognition. Argentine Ambassador Arriola exception who scarcely opened his mouth. Must be recalled Argentina has been pro-Morinigo and Arriola outspoken his opposition to Gonzalez.<sup>2</sup>

Embassy believes *de facto* regime presently full control of government. Asunción has accepted change almost lethargically. Embassy has no reason to doubt regime's declared intention respect obligations and international pacts entered into by previous governments. Embassy considers the spirit if not the letter of the constitution was followed in the selection of new president. Article 58 states that in case of presidential resignation Interior Minister will call a joint session of House of Representatives and Council of State to elect the provisional president. Article 62 provides for varied composition Council of State including all cabinet members.

Comments: There was no Interior Minister to call the joint session (National Assembly) since all cabinet members had resigned. Session

<sup>1</sup> Not printed.

<sup>2</sup> J. Natalicio González, elected on February 15, 1948 for the presidential term beginning August 15, 1948.



was convoked by Colonel Carlos Montanaro, chief of the revolutionary military forces. Similarly a full Council of State did not attend Assembly because there were no cabinet members. Neither public nor Diplomatic Corps informed identity and number of members of House Representatives and Council of State attending Assembly. Whatever be meaning Article 58 must be remembered that Morinigo's resignation was signed under duress and does not represent his own volition.

Embassy anxious see recognition question cleared up promptly because of five US missions to Paraguay and the arrival on June 13 of Major General E. H. Brooks from Panama. With so many non-Embassy activities it is difficult not to prejudice recognition decision by Department. It is presumed Department will recognize *de facto* government but Embassy awaits instructions.

WARREN

834.00/6-548 : Telegram

*The Secretary of State to the Embassy in Paraguay*

CONFIDENTIAL

WASHINGTON, June 8, 1948.

99. This Govt (urtel 275 June 5<sup>1</sup> and related messages) does not contemplate any interruption in our diplomatic relations with Paraguay. You may inform colleagues and local officials.

MARSHALL

<sup>1</sup> Not printed.

834.00/6-1648

*The Ambassador in Paraguay (Warren) to the Secretary of State*

CONFIDENTIAL

ASUNCIÓN, June 16, 1948.

No. 299

SIR: Reference is made to the Embassy's telegram of 263 dated June 3, 1948, reporting the overthrow of the Government of President Higinio Morinigo M., and to the Department's telegram 99 of June 8, 1948, informing the Embassy that the United States does not contemplate any interruption in its diplomatic relations with Paraguay. In this connection, I have the honor to forward copies of Foreign Office Note of June 4<sup>1</sup> regarding the election of provisional president, Dr. Juan Manuel Frutos, and this Embassy's Note 44 of June 9<sup>1</sup> submitting to the Foreign Office the information contained in the Department's telegram under reference.

<sup>1</sup> Not printed.

The first country to signify its intention to continue relations with the new government was Brazil. The Brazilian Ambassador informed the Embassy on June 8 that he had received instructions to so advise the Paraguayan Government. Chile, Argentina and Peru received similar instructions at about the same time as this Embassy, and by June 12 all countries except Venezuela had followed suit. As far as is known, all countries avoided the word "recognition", and stated that they were merely continuing their relations with Paraguay. On Saturday, June 12, the Diplomatic Corps (Venezuela excepted) made a joint protocol call on the new Minister of Foreign Affairs and Worship, Victor Morinigo. The Venezuelan Chargé d'affaires later received word that his Government had joined the rest of the countries, and he was able to be present on June 15 when the Diplomatic Corps paid its respects to President Frutos.

Very truly yours,

FLETCHER WARREN

#### IV. PERU

##### *Editorial Note*

With regard to the Peruvian revolution which began the night of October 27, 1948 at Arequipa, the Ambassador in Peru (Tittmann) reported in part as follows: (1) in telegram 609, October 29, 9 a. m. that a revolt in the armed forces had broken out in Arequipa on the previous night led by General Manuel Odria, former Minister of Government under President José Luís Bustamante y Rivero; (2) in telegram 614, October 29, 11 a. m.: "General feeling is that President Bustamante will endeavor avoid bloodshed and would resign rather than order loyal troops to attack rebels"; (3) in telegram 620, October 29, 4 p. m.: "Embassy received report at noon today that General Odria notified Lima from Arequipa, that President turn government to General Hurtado to assure peaceful attitude troops in Lima military zone. Odria would then come to Lima to take over government"; (4) in telegram 625, October 30 that President Bustamante had left the country by air; (5) in telegram 632, October 30, that General Odria had arrived at Lima from Arequipa and was at the Government Palace that afternoon at 5 p. m.; and (6) in telegram 639, November 2, 1 p. m. that the revolution had been accomplished without firing a single shot, the armed forces were united behind General Odria, and stability of government seemed assured for foreseeable future. (Telegrams 609, 614, 620, 625, and 632 are in file 823.00; 639 in 823.01.)

823.01/10-3148 : Telegram

*The Ambassador in Peru (Tittmann) to the Secretary of State*

NIACT      PRIORITY

LIMA, October 31, 1948—noon.

634. Department's 411, October 30, 9 p. m.<sup>1</sup> Unless instructed to contrary, I propose to establish contact with new Chief of Government and Minister of Foreign Affairs within next 48 hours, basing my actions on Bogotá Resolution. If asked whether such contact constitutes recognition, I propose to quote paragraphs one and three of Bogotá Resolution No. 35 without comment.

TITTMANN

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<sup>1</sup> Not printed ; Acting Secretary Lovett indicated that the Department's policy would be to act in conformity with Bogotá Resolution 35 on continuity of diplomatic relations (823.01/10-3048).

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711.23/11-848

*Memorandum by the Director of the Office of American Republic Affairs (Daniels) to the Acting Secretary of State*

[WASHINGTON,] November 8, 1948.

Subject: Resumption of Diplomatic Relations with Peru.

*Background*

Our Ambassador in Lima has received a note (Summary in Tab A<sup>1</sup>) from the new Minister of Foreign Affairs notifying us that a Military Junta of Government has been established in Peru. The attached telegram (Tab B) contains the text of a note of acknowledgment which our Ambassador is instructed to deliver to the Foreign Minister, thereby establishing diplomatic relations with the new regime.<sup>2</sup> A second telegram (Tab C) informs our other Embassies in Latin America of this action.<sup>3</sup>

All the factors usually taken into consideration in such cases have been weighed in making this recommendation. The Embassy in Lima is in full agreement with it.

In the absence of any compelling reason to the contrary, it is desirable for the United States to maintain diplomatic relations with all Latin American governments. This attitude is in accord with Resolution XXXV of the Bogotá Conference which declares that the continuity of diplomatic relations among the American republics is desirable, and that maintenance of such relations does not imply any judgment upon the domestic policy of another government.

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<sup>1</sup> Tab A not printed.

<sup>2</sup> Telegram 430, November 20, *post*, p. 114.

<sup>3</sup> Circular telegram November 10, *infra*.



Adoption of that resolution at Bogotá was in large measure motivated by a desire of the American Governments to separate the question of maintaining normal diplomatic relations with other American governments from the question of approval or disapproval of any newly established government. The Bogotá Resolution was also intended to simplify the whole process of establishing relations with new governments, and to this end avoids use of the formal term "recognition".

On the basis of the general policy set forth in Resolution XXXV, the United States in April 1948, appointed an Ambassador to Nicaragua, whose government we had not recognized for almost a year. Likewise, when a new government seized power in Costa Rica last spring, we instructed our Embassy there, in May, that on the basis of Resolution XXXV they should continue relations with the Costa Rican Government despite the change. Similar action was taken with regard to a forcible change of government in Paraguay in June.

To date, of the American Republics, Argentina and the Dominican Republic have announced that they are maintaining relations with Peru; the Bolivian Foreign Minister has told our Ambassador in La Paz that his government will continue relations with Peru; and the Peruvian Foreign Office has announced that the Paraguayan Ambassador has stated that his country will continue official relations. (Spain's Ambassador to Lima has informed Ambassador Tittmann that relations between his government and Peru are continuing.)

The Chilean and Uruguayan Governments have indicated they wish to think things over a while because of their disapproval of the seizure of power by the military in general.

The draft press release (Tab E),<sup>4</sup> to be issued after our reply has been delivered to the Peruvian Foreign Minister, makes special note of the fact that under Resolution XXXV establishment of relations does not imply approval of the government's internal character.<sup>5</sup>

Resumption of relations with Peru does not complicate the position we have taken in the Palestine case where the Provisional Israeli Government was recognized as the *de facto* government of a completely new state.

#### *Recommendation*

That the attached telegrams be signed and the press release initialed.

#### *Concurrences*

NEA UNA L

PAUL C. DANIELS

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<sup>4</sup> Not printed.

<sup>5</sup> See telegram 430, November 20, to the Embassy in Peru, p. 114.

823.01/11-1048 : Circular telegram

*The Acting Secretary of State to Certain Diplomatic Representatives  
in the American Republics*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, November 10, 1948.

Dept considering resumption normal diplomatic relations with Peru accordance Resolution 35 Bogotá Conference. Before taking action desires know attitude other Amer Republics which have not yet taken action. Consult FonMin re foregoing and tel any views he may express.

LOVETT

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<sup>1</sup> Sent to Embassies in Brazil, Chile, Colombia, Costa Rica, Cuba, Mexico, Nicaragua, Panama, Uruguay, Venezuela, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Paraguay; repeated for information to Embassies in Argentina, Dominican Republic, Peru, and Bolivia.

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823.01/11-1248 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the  
American Republics*<sup>1</sup>

WASHINGTON, November 12, 1948—9 a. m.

In conversations with reps OAR here respecting Peru Dept making following points :

1. US will naturally not wish take action contrary Resolution 35 unanimously approved Bogotá.
2. In view revolutionary and military character Junta Govt US wishes ascertain attitudes OAR before resuming normal relations.
3. Res 35 imposes no obligation merely stating: continuity desirable.
4. No time limit as to when formal action should be taken.

LOVETT

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<sup>1</sup> Sent to 20 American Republics.

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711.23/11-2048 : Telegram

*The Acting Secretary of State to the Embassy in Peru*

US URGENT

WASHINGTON, November 20, 1948.

430. You are authorized address Note along following lines to Minister Foreign Affairs acknowledging receipt Minister's Note dated Oct 31:<sup>1</sup>

"I have the honor to acknowledge receipt of Your Excellency's Note dated October 31, 1948 informing me that there has been con-

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<sup>1</sup> Not printed.

stituted a military *junta de gobierno* under the presidency of General Manuel Odria in which Your Excellency has been designated to serve as Minister of Foreign Affairs.

"I have noted with satisfaction Your Excellency's statement that the new administration will respect its international obligations and that its foreign policy will be based upon the principles which have characterized Peru's diplomatic traditions.

"Under instructions from my Government, I have the honor to express to Your Excellency the hope that the cordial relations which have long existed between Peru and the US will continue unimpaired.

"Accept, Excellency, the assurances of my highest consideration."

If you deem it advisable you are authorized deliver note in person. Inform Dept urgently when note has been delivered.<sup>2</sup>

LOVETT

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<sup>2</sup> In despatch 1002, November 29, not printed, Ambassador Tittmann transmitted a copy of note No. 53, November 21, which he had personally delivered to the Peruvian Foreign Minister at 12:30 p. m. on that date (711.23/11-2948).

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S10.00/12-2348

*Memorandum of Conversation, by the Chief of the Division of North and West Coast Affairs (Mills)*

WASHINGTON, December 23, 1948.

Subject: Peruvian Inquiry regarding Consultation with Other American Republics.

Participants: Señor Don Manuel G. Galdo, First Secretary, Peruvian Embassy  
Mr. Sheldon T. Mills, Chief of NWC

Señor Galdo called at his request. He had in his hand a copy of the Department's press release of December 21<sup>1</sup> dealing with our concern over the overthrow of duly elected governments by military cliques. He said he was seeking information as to its meaning. I explained to Mr. Galdo that the U.S. Government was greatly concerned over the three overthrows of duly elected governments by military groups: first in his country, then in Venezuela, and now in San [EL] Salvador. I told him that because of this concern we were consulting all of the governments of the other American Republics, with the exception of Venezuela and San [EL] Salvador with which we do not currently have relations, regarding steps which the Inter-American Organization might take to prevent such overthrows taking place in other countries. Our Ambassador in Peru, I added, had called upon the Peruvian Foreign Minister on December 22 and handed him a memorandum summarizing the Department's views. Mr. Tittmann had re-

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<sup>1</sup> For press release of December 21, 1948, see Department of State *Bulletin*, January 2, 1949, p. 30.



requested the Foreign Minister's comments. The Peruvian Foreign Minister stated he appreciated our concern, adding that the Peruvian Government could not be "more democratic." He promised his comments later.

This was news to Mr. Galdo since his inquiry was on the initiative of the Peruvian Embassy here and was not under instructions from his Government. It had been news to him to learn that we had communicated our views to the Peruvian Government and requested its reaction.

He stayed for nearly an hour discussing the conditions in his country, attacking the APRA party and explaining to me that his country was not yet ready for either the British or American types of democracy.

## V. EL SALVADOR

816.00/12-1648

*The Chargé in El Salvador (Williams) to the Secretary of State*

No. 499

SAN SALVADOR, December 16, 1948.

SIR: I have the honor to refer to my telegrams 226 through 231 of December 14 and 15<sup>1</sup> and to submit the following report on the overthrow of President Salvador Castaneda Castro on December 14, 1948.<sup>2</sup>

### PROVOCATION OF THE REVOLT

*The Decree Convoking a Constituent Assembly.* As reported in telegram 225 of December 14, and despatch No. 497 of December 14,<sup>3</sup> President Castaneda on Monday made a sudden effort to get at least two more years in office by calling a special session of the National Assembly and rushing through a decree designed to remove constitutional limitations on his present term.<sup>4</sup> The decree, published as Decree No. 253 of December 13, called for the election of a Constituent Assembly this week to consider the legality of prolonging Castaneda's term for two more years.

*Indignation over Decree.* When the decree was published Tuesday,<sup>5</sup> there was general popular indignation. It was evident to everyone that Castaneda was making a last desperate effort for *continuismo* and that he had chosen this week because the strongest opponent to his con-

<sup>1</sup> None printed.

<sup>2</sup> For Department of State press release of December 15, 1948, "Uprising overthrows President of El Salvador", see Department of State *Bulletin*, December 26, 1948, p. 810.

<sup>3</sup> Neither printed.

<sup>4</sup> President Castaneda's four-year term was to end March 1, 1949, and elections for the presidency of the Republic were scheduled to be held in January 1949.

<sup>5</sup> December 14.

tinuing, General Mauro Espinola Castro,<sup>6</sup> was in the hospital recovering from an appendectomy. There was immediate activity on the part of all political parties to marshal their forces as far as possible to meet this threat.

*The Decision of the Young Officers.* The Young Officers group, which had participated unsuccessfully in the revolt of April 2, 1944,<sup>7</sup> against President Martínez,<sup>8</sup> and had for four years nursed some hope of effecting a successful *coup d'état*, was the first outfit to prepare for action on a large scale. Castaneda's indecision with respect to holding elections in January and his most recent signs of *continuismo* had encouraged them. They met Monday night, December 13, in great secrecy and again early Tuesday. At 9 a. m. Tuesday, according to a member of the group, they took their final decision to act.

### THE MILITARY ACTION

*Seizure of the Zapote Fort.* At about 1 p. m. Tuesday, a group of the young officers, headed by Lt. Col. Manuel de J. Cordova, Sub-Director of the Escuela Militar, entered the Zapote Fort barracks of the First Artillery Regiment. Moving quickly, they took command of forces present and prepared for action. The Commander of the garrison, General Santiago Ayala, long considered a bulwark of any incumbent regime, was away from the fort, having been called to the hospital to visit his sick wife. There was apparently no resistance whatsoever to the seizure.

*The Firing.* At about 1:40 p. m., first shots were fired from machine guns and mortars in the direction of Casa Presidencial, arousing President Castaneda, who was finishing his lunch. Castaneda telephoned immediately to the fort and had the disappointment of finding that his friend, General Ayala, was away and that the officers in the fort wanted his surrender. There was intermittent firing for the next two hours as the President hesitated and tried to ascertain what forces were still loyal to him. When he found that the Cavalry regiment had been lost to the revolutionaries and its commander, Colonel Juan Solorzano, had been killed, and that he could count on no significant forces either in the city or in the provinces, he left Casa Presidencial and took refuge in the Police headquarters. When the Zapote officers learned of this, they opened fire with machine guns and mortars at about 4 p. m. on the Policia. There was no return fire and at about

<sup>6</sup> Minister of Defense. On December 14 President Castaneda had taken over personally General Espinola's position as Minister of Defense and had changed several strategic garrison commanders, according to a report by the Chargé in El Salvador (Williams) in telegram 225, December 14, 10 a. m., not printed.

<sup>7</sup> For documentation on this subject, see *Foreign Relations*, 1944, vol. VII, pp. 1087-1113.

<sup>8</sup> Gen. Maximiliano Hernández Martínez.

4:10 p. m. the white flag of surrender was hoisted over the Policia. There was no further firing.

### THE DIPLOMATIC CORPS CALLED IN

*Castaneda's Message to Papal Nuncio.* René Garcia Prieto, Castaneda's son-in-law and Minister of Fomento, came to the American Embassy at 4:40 p. m. to say that the President had "no forces" and to ask Embassy representatives to go to the Policia to witness the surrender. Garcia Prieto was told that he should take this up with the Dean of the Diplomatic Corps, the Papal Nuncio. From the Embassy, Garcia Prieto went directly to the Nunciatura, where in the presence of the Costa Rican and Honduran Ambassadors and the undersigned and other officers of this Embassy, the Nuncio acceded to Castaneda's request and agreed to convene the corps. He made it clear that the corps would be called, at the President's request, simply to witness the surrender and thus to help end the bloodshed. Since telephone service had been suspended, American Embassy personnel assisted the Nuncio, at his request, in conveying messages to members of the corps.

. . . . .  
*Informing the Corps of Castaneda's Removal.* At about 9 p. m. the corps was invited to the Zapote by Lt. Col. Cordova who said he wished to give them an accurate account of the movement. Cordova made a speech in which he declared that "the Criminal (reo) ex-President Castaneda" had been removed from office by the Young Officers group and would be held pending trial for "lesa-patria," especially for his flagrant violation of the laws of the land and his misuse of the national treasury.

### THE JUNTA

*Cordova's Statement of Purposes and Plans.* Cordova stated to the Corps that the movement was a patriotic one undertaken out of respect for a soldier's duty to his country. He said they had been forced to act by Castaneda's disregard for the constitution through his attempt on Monday to get himself an extended term. He promised that free elections would be held as soon as possible. He declared that the group had no political commitments whatsoever (contrary to earlier reports that they would support Espinola). He boasted that the army was entirely in support of the movement and was in complete control of all sections of the country. The country would be governed, he added, by a military junta. After his statement and a further clarification by Major José Maria Lemus, the Diplomatic Corps left the Zapote.

*Composition of the Junta.* It was announced yesterday that the Junta would consist of:



Teniente-Coronel Manuel de J. Córdova  
Major Oscar Osorio  
Major Oscar Bolaños  
Doctor Humberto Costa  
Doctor Inf. Reynaldo Galindo Pohl

. . . It is important to note that so far no one above the rank of lieutenant colonel has appeared among the leaders. It is literally and strictly a young officers' group.

*Who is Behind the Movement?* It appears that aside from the Army the principal support of the young officers comes from a few young liberal intellectuals and from a large body of students. There has been no sign yet of any capitalist assistance for the young officers, nor has any such aid been necessary up to the present. . . .

*The Communists.* The Junta professes its intention to deal severely with communists. It has stated that it will purge from the Government such "suspected communists" as Rodolfo Jimenez Barrios and Ricardo Jimenez Castillo, now in Geneva or Paris. On the other hand, the supporters of Colonel Osmin Aguirre have zealously been spreading the rumor that the communists are actually the brains of the revolt. I think this is quite evidently a maneuver by Aguirre to prepare the ground for some action of his own if he is released from prison.

#### THE STATE OF THE REPUBLIC

*Business as Usual.* The revolt started Tuesday during the long luncheon and siesta hour. Accordingly, all business establishments were closed and most of them had their iron shutters down. They remained closed until Wednesday morning. Thus, there was no damage to any business premises. (No other significant property damage has been observed.) When shops opened Wednesday, they functioned normally, though there was some delay in getting commercial cables out of the country. The Embassy assisted the Grace Line and other American concerns in obtaining clearances for telegrams.

*Order Maintained.* A ten o'clock curfew was established Tuesday and martial law declared. The revolutionaries moved quickly to organize police protection. They appointed Lt. Colonel Miguel Angel Parada, formerly Sub-Director of the Police, to be Acting Director General of Police. As a result there was complete order in the city. Military censorship of mails was placed temporarily in effect. The curfew was suspended Wednesday evening.

. . . . .

*Casualties.* As previously reported, there were no known American casualties. Total Salvadoran civilian casualties are reported as four dead and ten injured, all passersby. In addition to Col. Solorzano, one military fatality has been reported.

. . . . .

### CONSTITUTION TO BE REVISED

The Junta intends for the present to govern by decree, and as soon as possible it says that it will call a Constituent Assembly to rewrite the constitution. Meanwhile, the former constitution is abrogated. As of early Thursday morning, no announcement had been made as to the makeup of the new Government.<sup>9</sup> The Embassy will follow developments closely and report. The Military Attaché, Lt. Col. Alva R. Fitch, who is highly respected by members of the Junta, is being kept constantly informed of their plans and actions.

Respectfully yours,

MURAT W. WILLIAMS

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<sup>9</sup> In despatch 501, December 17, 1948 from San Salvador, not printed, Chargé Williams transmitted a copy of Decree No. 1 of the Council of the Revolutionary Government published December 16, 1948, containing a concise statement of the general position of the Junta which seized power on December 14.

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816.00/12-1748: Airgram

*The Chargé in El Salvador (Williams) to the Secretary of State*

SAN SALVADOR, December 17, 1948.

329. Following is status after revolution of December 14 of non-Embassy United States groups in El Salvador.

Agricultural mission, operating Centro Nacional de Agronomía in cooperation with Salvadoran technicians, and public health mission, functioning as Servicio Inter-Americana de Salud Publica, are carrying on normal operations. Public roads Administration engineer also working normally and expects no interference. Army Ground Mission and Air Mission have suspended formal relations with Junta for time being. Air Mission quite pleased with finding many good friends in positions of importance. Chief of Ground Mission faced with interesting situation of having Quintanilla,<sup>1</sup> Minister of Defense, and Cordova, leader of Junta, two of his former sub-directors in Military School, now in positions of command. A separate report will be submitted on possible difficulties between the Junta and the Ground Mission.

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<sup>1</sup> Lt. Col. Fidel R. Quintanilla.

Geodetic Survey Mission is operating as usual. American School is on vacation at present. Professor Walter Bastian, visiting professor on Department grant at National University also on vacation.

WILLIAMS

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816.00/12-1848 : Telegram

*The Ambassador in El Salvador (Nufer) to the Secretary of State*

CONFIDENTIAL

SAN SALVADOR, December 18, 1948—3 p. m.

237. Salvadoran revolutionary movement has no connection Peruvian and Venezuelan revolts (Deptel 131, December 15<sup>1</sup>). Coup justified in popular mind by Castaneda's attempt remain in office. So far no apparent Communist or other totalitarian purposes observable in Junta but would like check these aspects further.

*De facto* government seems popular among all classes and martial law was necessary only 24 hours. Movement is considered both civic and military. Two civilians in Junta and Cabinet all civilian except Defense Ministry (Embassy despatch 502, December 17<sup>1</sup>). Supreme Court dissolved yesterday but common courts functioning as usual.

New Sub-Secretary Foreign Affairs<sup>2</sup> unofficially called today and said Guatemala recognized Junta yesterday, Costa Rica today. Spain continuing normal relations. He said no immediate changes in Salvadoran diplomatic corps contemplated.

Despite popular acclaim *de facto* government faced with pitfalls mainly because likely differences of opinion between five persons composing Junta; lack of experience and relative youth Junta members; and Junta's avowed intention govern temporarily without constitution. Sub-Secretary Foreign Affairs said today however decision on constitution not yet final.

Sent Department 237, repeated CA Missions.

NUFER

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<sup>1</sup> Not printed.

<sup>2</sup> Carlos Azucar Chavez, Under Secretary, Foreign Affairs.

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816.00/12-2048

*The Ambassador in El Salvador (Nufer) to the Secretary of State*

No. 506

SAN SALVADOR, December 20, 1948.

SIR: I have the honor to refer to my telegram 237 of December 18, 1948, and to transmit a copy, with translation, of note No. SP. 1335



A.800-D-2662 of December 18, 1948,<sup>1</sup> the first received by this Embassy from the Foreign Minister of the *de facto* government, Dr. Miguel Rafael Urquia.

In this note, Dr. Urquia informs the Embassy that because the Castaneda Government had attempted to prolong the President's term in "manifest violation of the laws", it had been overthrown by the Salvadoran army "in exercise of a right recognized by the Constitution." He further states that all of the powers of Government have been assumed, as of December 14, 1948, by a "Civic-Military Junta", composed of Lt. Colonel Manuel de J. Cordova, Major Oscar Osorio, Major Oscar A. Bolaños, Dr. Humberto Costa and Dr. inf. Reinaldo Galindo Pohl. These names have previously been reported to the Department.

Dr. Urquia further lists the names of the members of the Cabinet of the *de facto* government. The list is the same as that transmitted to the Department in the Embassy's despatch No. 502 of December 17, 1948.<sup>1</sup>

I, of course, have not acknowledged the receipt of Dr. Urquia's note which will be held pending instructions from the Department regarding the recognition or continued non-recognition of the regime. My views in this latter connection are being set forth in a separate communication to the Department.<sup>2</sup>

Respectfully yours,

ALBERT F. NUFER

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<sup>1</sup> Not printed.

<sup>2</sup> See *infra*.

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816.01/12-2248

*The Ambassador in El Salvador (Nufér) to the Secretary of State*

CONFIDENTIAL

SAN SALVADOR, December 22, 1948.

No. 513

SIR: With further reference to my recommendation that we recognize the *de facto* government of El Salvador at the earliest propitious moment, I have the honor to submit the following comments:

There is nothing in the local situation which would make a delay in our recognition desirable, and while the Department, in view of recent developments in other Latin American countries,<sup>1</sup> may wish to avoid giving the impression of undue haste, I sincerely hope our recognition will be extended very shortly so that no serious strain will

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<sup>1</sup> For Department of State press release of December 21, 1948, "United States concerned at overthrow of Governments in certain American Republics", see Department of State *Bulletin*, January 2, 1949, p. 30.

be placed on the traditionally excellent relations between our two countries.

To date the *de facto* government has been recognized by Guatemala, Costa Rica, Nicaragua, Honduras and Spain. None of the larger Latin American countries have done so as yet. They may be waiting for us to take the lead, although there are rumors that Mexico intends to extend recognition shortly.

The Junta, or "Council of Revolutionary Government" as it now calls itself, has, for the time being at least, effective control of the entire country and the support and approval of a large majority of Salvadorans in all walks of life. The revolt was strictly a local show. There is no reason to believe that it was Communist- or Fascist-inspired or that the *de facto* government has any totalitarian leanings. While the two leading members of the Junta, namely, Lt. Col. Manuel de J. Cordoba and Major Oscar Osorio, were exposed to Fascism during their military training in Italy, few well informed sources believe they harbor any Fascist views at the present moment. Moreover, the two civilian members of the Junta, Dr. Reynaldo Galindo Pohl and Dr. Humberto Costa, are unquestionably strong Liberals. Then again, while two of the officials appointed by the Junta, i.e. Ingeniero Jaime Dreyfus, Subsecretary of Fomento, and Raul Anaya, private secretary to the Junta, have in the past been suspected of Communist leanings, there are numerous other appointees with decided conservative tendencies. In fact, the rightist and leftist elements within the new government seem so well balanced that it would be difficult to state at this time whether the government is right or left of center. It might be mentioned parenthetically that a prominent Salvadoran Communist, Abel Cuenca, who had been in exile and who returned shortly after the revolt, was again deported yesterday, and the Junta, I understand, proposes shortly to issue a decree outlawing Communism.

As an indication of the Junta's confidence in its ability to control the situation, the state of siege which has been in effect here since the general strike of September 1946 was lifted by the Junta's decree No. 5 of December 20, 1948. The same decree declared the intention of the Junta to fulfill El Salvador's international obligations.

To my mind the outstanding feature of the recent revolt is the satisfaction with which its outcome is viewed by the majority of Salvadorans. They believe that the uprising was entirely justified by the circumstances and that the new régime will usher in a period of honesty and austerity in government. While they may be over-optimistic in this latter respect, there is reason to believe that the Junta has good intentions and that it is imbued with a desire to labor for the good of the country.

Although the Junta has gotten off to a good start, its task will not be an easy one. There is always the possibility that the five men composing the Junta may quarrel among themselves, especially when the time comes to decide who shall be its actual head. Moreover, while doubtless well-intentioned, the members of the Junta are all relatively young (only one is over 40) and none of them has any previous experience in government. That they realize this is indicated by their announced intention to create a sort of advisory council composed of leading representatives of commerce, industry, agriculture, labor and the professions. The Junta has also apparently realized the difficulties inherent in their attempt to govern without a constitution, and while the 1886 constitution was abrogated by its above mentioned decree No. 5, it simultaneously enacted decree No. 6, also dated December 20, re-establishing most of the provisions of the abrogated constitution until such time as a new one is adopted.

Press reports originating in the United States received here during the last few days indicate that there is a complete misunderstanding of the nature of the revolt and that it is regarded in the same light as the recent *coup d'état* in Venezuela. As the Department is, of course, aware, this is not in accordance with the facts, and I am telegraphing the Department today expressing the hope that it will avail itself of every possible opportunity to correct these erroneous reports and impressions.

While the actual overthrow of the Castaneda Castro régime was accomplished by the army, the revolt had the prior approval of liberal civilian elements and civilians were given immediate participation in the *de facto* government. Two of the five members of the Junta are civilians as are all the members of the cabinet with the exception of the Minister and Subsecretary of Defense. The *de facto* government is therefore less military than was that of Castaneda Castro. At the time of his overthrow, four of the ministries, i.e., Defense, Labor, Interior and Social Assistance, were headed by army officers, while Castaneda Castro himself was, of course, a military man. Again, and directly contrary to what happened in Venezuela, the revolt did not result in the overthrow of a truly popular government, as the election of Castaneda Castro can hardly be said to have been the result of the freely expressed will of the people. Furthermore, the overwhelming majority of Salvadorans were opposed to Castaneda Castro's continuing in office for an additional period and resented the devious means employed to attain that end. They are obviously pleased over the turn of events and the feeling of apprehension and intranquillity which prevailed during recent months when most people felt something might happen but no one knew what to expect, has been largely replaced by a feeling of hopefulness. In other words, the tension has eased and the general



impression, rightly or wrongly, is that the new government will succeed. Its chances of doing so would, of course, be greatly enhanced by our early recognition.

I would appreciate receiving an early expression of the Department's views in the premises.

Respectfully yours,

ALBERT F. NUFER

816.01/12-2448 : Telegram

*The Acting Secretary of State to the Embassy in El Salvador*

CONFIDENTIAL

WASHINGTON, December 24, 1948—1 p. m.

135. Question resumption relations El Salvador involved over-all considerations raised by three revolutions.<sup>1</sup> Therefore while Dept sympathizes with your comments re domestic policies new Sal Govt these not determining factors.

LOVETT

<sup>1</sup> In Peru, El Salvador, and Venezuela.

816.01/12-2848 : Telegram

*The Ambassador in El Salvador (Nufer) to the Secretary of State*

CONFIDENTIAL

SAN SALVADOR, December 28, 1948—7 p. m.

254. While appreciating Department's position, the danger that our prestige here may be permanently damaged and our relations impaired if recognition unduly delayed compels me urge reconsideration views expressed Deptel 135, December 24.

Question has been repeatedly raised among Salvadorans why US, regardless of Bogotá resolution, does not use recognition to imply its approval of present regime which obviously has support overwhelming majority and which many observers consider most popular in many years. It would moreover cause lasting resentment were impression to gain ground that we are putting Venezuelan Junta in same class with Salvadoran *de facto* government which as mentioned my despatch 513, December 22 represents liberal trend toward popular government away from government of Castaneda which was not freely elected and operated under permanent state of siege.

NUFER

816.01/1-1349 : Telegram

*The Acting Secretary of State to the Embassy in El Salvador*

CONFIDENTIAL

WASHINGTON, January 13, 1949.

4. You are instructed establish normal diplomatic relations with govt of Salvador on Jan 21 by delivering to FonMin fol note :

"I have the honor to ack receipt of Y.E. note dated Dec 18<sup>1</sup> informing me of the establishment in El Salvador of a new govt under a Council of Revolutionary govt and advising me that you have been designated FonMin.

"Under instructions of my govt I have the honor to express the hope that the friendship which has long characterized the relations between our two countries will continue unimpaired.

"I avail etc."

Govts OAR being informed our proposed action.<sup>2</sup>

LOVETT

<sup>1</sup> Not printed ; see despatch 506, December 20, from San Salvador, p. 121.

<sup>2</sup> In a press release of January 21, 1949 on the resumption of diplomatic relations with El Salvador, the Department indicated that this action was being taken as a result of an exchange of views with the other American republics over a period of several weeks ; for text of the release, see Department of State *Bulletin*, January 30, 1949, p. 150.

## VI. VENEZUELA

831.00/11-2248

*Memorandum by the Chief of the Division of North and West Coast Affairs (Mills) to the Director of the Office of American Republic Affairs (Daniels)*

[WASHINGTON,] November 22, 1948.

Subject: Background of Present Venezuelan Crisis.

The present situation has been building up over a period of months ; indeed, the first rumors of military dissatisfaction were reported even before President Gallegos was inaugurated<sup>1</sup> and were intensified with the announcement of his cabinet which included only one military man : Lt. Col. Delgado Chalbaud, the Minister of National Defense.

The Army justifies its desires for participation in the Government on the grounds that the revolution which put AD in power was carried out by the Army. The Army called in AD to run the administration, but it feels responsible for seeing that AD does a good job. This argument overlooks the fact that, since the revolution, AD has received

<sup>1</sup> For press release of February 2, 1948, on United States diplomatic representation at the inauguration of President Romulo Gallegos on February 15, see Department of State *Bulletin*, February 15, 1948, p. 222.

two overwhelming endorsements from the people in popular elections; as distinct from the ex-Revolutionary Junta of Government, presided over by Betancourt,<sup>2</sup> Gallegos feels he owes his position entirely to the people and that the Army should limit itself to the role of defender of constitutional government.

Alleged causes of Army discontent are: 1) Graft and inefficiency in the Government; 2) failure of Government to check rising cost of living; 3) failure of Government to curb labor demands for higher salaries; 4) failure of Government to outlaw the Communist party; 5) monopoly of Government by AD to the exclusion of opposition elements. An additional, but usually unvoiced, source of Army unrest is the ambition of some of its leaders for high civil office which would give them prestige, or money, or both.

Opposition has apparently centered around the Chief of Staff, Lt. Col. Pérez Jiménez, but the most recent reports indicate that even Delgado Chalbaud, long considered the most loyal supporter of the administration, has joined in demands that the Government act more vigorously against the Communists, "crack down" on labor and probably include more military men and representatives of the opposition in the Government.

Army discontent came to a head towards the end of September. A source outside the Government indicates that Delgado Chalbaud discussed the Army's views with Betancourt after the latter's return to Venezuela; Betancourt reportedly indicated understanding and some measure of agreement, but asked that the Government not be required to take action until after the adjournment of Congress. Congress adjourned November 9, 1948, but the Government didn't make any changes. (It hardly had time to.) All sources agree that the Peruvian revolution had a great influence on the thought of the military men in Venezuela, and it is significant that Pérez Jiménez is said to be a personal friend of General Odria, the Peruvian provisional President.

Against this background the current crisis assumes a more serious aspect. Acción Democrática must either satisfy the demands of the majority of Army officers or resort to the dangerous expedient of a general strike to try to force the military to recede. If the former, the way will be opened for increasing military interference by the Army in civil affairs and a fundamentally unstable situation caused by a division of power and responsibility. A general strike, on the other hand, would be disastrous for the country's economy and might easily result in civil strife and bloodshed.

The present situation is confused. Both the Army and the Government are making great efforts to keep the details of their arrangements

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<sup>2</sup> Romulo Betancourt, President of the Revolutionary Junta of Government, October 1945–February 1948.



secret, and the press has been forbidden to speculate about them. The President's Executive Secretary told the Ambassador that an agreement had been made, but did not disclose its basis. Delgado Chalbaud, talking with our Military Attaché Saturday afternoon, denied that the Army had demanded any changes in the administration or that any changes were contemplated. Nevertheless, the crisis has not abated; the latest reports indicate increasing nervousness on the part of Government officials and mention unconfirmed reports that the "agreement" between the Army and the Government has not been accepted by a dissident group of Army officers, who are demanding a coalition, or "national" government instead of 100 percent AD control.

SHELDON T. MILLS

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831.00/11-2348 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

NIACT      US URGENT

CARACAS, November 23, 1948—4 a. m.

858. I received visit 1 a. m. this morning from Cabinet Minister who said he had come directly from meeting with President Gallegos at latter's private residence. He said that about midnight an Army officer representing Army called on Gallegos to tell him that unless President accepted conditions laid down by Army, Army would take over government today (November 23). President informed Army officer his position unchanged namely he will not accept conditions imposed by Army but that as stated before he prepared consider Cabinet changes, etc., free of duress. Army officer replied to President this was Army's ultimatum. Delgado Chalbaud Minister National Defense left at once with Gonzalo Barrios on what my informant said is last minute effort avoid blow-up Cabinet.

Minister confirmed labor leaders have been alerted and that if Army acts there strong possibility general strike with unpredictable results. He said that if Betancourt assassinated we may have another Bogotá.<sup>1</sup> According Minister, great majority Army officers united against government. Police Caracas and officers National Guard with Army. He confirmed Perez Jimenez spearhead Army movement<sup>2</sup> and described him as Peronista type. In reply my query as where Communists stand he said President regretted that Communist Party publicly announced its adhesion to government.

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<sup>1</sup>Reference is to the Bogotá, Colombia uprising of April 9, 1948, after the Liberal Party chief Jorge Gaitan was shot and killed.

<sup>2</sup>Ambassador Donnelly informed the Department in unnumbered telegram of November 24 that Colonel Pérez Jiménez had just announced by radio that the army had taken over the government (831.00/11-2448).

I view situation as very critical at this moment.

Pass Army Navy and Air. Department please repeat to General Ridgway, Balboa<sup>3</sup> for his information.

DONNELLY

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<sup>3</sup> Lt. Gen. Matthew B. Ridgway, Commander in Chief, Caribbean Command.

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831.00/11-2448 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

US URGENT

CARACAS, November 24, 1948—10 p. m.

883. At my request Secretary Carrigan<sup>1</sup> accompanied by Secretary Leddy<sup>1</sup> called tonight on Delgado Chalbaud, Minister of National Defence, at Ministry. Summary replies to specific questions which I asked Secretaries make of Minister follows: Said he had no news any injury or inconvenience caused American citizens or any damage American interests and said they doing everything possible protect these including specifically oil interests. He said President Gallegos well and being given every consideration. He volunteered they in process forming new government.

DONNELLY

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<sup>1</sup> John Willard Carrigan, First Secretary of Embassy; Raymond G. Leddy, Second Secretary of Embassy.

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831.00/11-2548 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

US URGENT

CARACAS, November 25, 1948.

Unnumbered. Creation Military Junta announced midnight November 24th. Summary text follows. Act of Constitution of Traditional Government of Venezuela November 24, 1948 at Miraflores. Since armed forces have assumed control of the nation a Military Junta has been created and will be composed of Lieut. Col. Carlos Delgado Chalbaud as President, Lieut. Col. Llovera Pérez.<sup>1</sup>

The Junta will be empowered to issue all necessary decrees and other legal acts required by majority vote. It will have secretary who may be removed at will. All question of constitutional order will be settled in accordance with provisions of constitution of July 1936, amended in May 1945, and without prejudice to using those progressive provisions of constitution of 1947; the present laws of the country will be maintained where they do not conflict with the present act.

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<sup>1</sup> Marcos Pérez Jiménez was another member of the Junta, and Miguel Moreno was Secretary of the Junta.

Signed by Carlos Delgado Chalbaud, Marcos Pérez Jiménez, Luis Felipe Llovera Páez, Ricardo Mario Vargas, Jose Leon Rangel, Wolfgang Larrazabal, Felix Roman Moreno, Oscar Tamayo Suarez, Miguel Moreno.

DONNELLY

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831.00/11-2548 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

US URGENT

CARACAS, November 25, 1948.

Unnumbered. US press correspondents had an interview with Lt. Colonel Delgado Chalbaud, president military junta this afternoon and report as follows :

(1) When asked about relations with the US he replied he expected them to remain on same cordial plane as before as the US is respected by armed forces.

(2) He said statements to the effect this revolt has been a blow to democracy are unjustified but was in defense of democracy.

(3) He was asked whether or not this movement was similar to that of Colonel Peron in Argentina. He answered : "Each country has its own problems and one cannot compare this with any other country. We want to state categorically this movement is not directed in any manner to instigate a military dictatorship. The national army as an institution is at the service of the nation and not of any group and it does not feed on political ambitions. When the army assumed the responsibility it had to assume it was not to act against democratic principles but on the contrary to save the existence of those principles that are the fundamental objectives of all Venezuelans."

(4) Elections. He said that it is hoped preparations will be made for elections at the soonest opportunity so that "the people of Venezuela can elect the government they want".

(5) He said certain elements in Army were going to arise in arms anyway yesterday and to avoid civil war the Army had to take measures. No measures have been taken against political parties but many of their leaders are under arrest.

(6) Concerning President Gallegos, he said Gallegos could not cope with the situation. He stated election of Gallegos by AD was not in reality a popular election but was put through by a political party that had risen to power by force.

(7) He refused to answer a question as to what would be the attitude of the new government towards Communism.

DONNELLY



831.00/11-2748 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

US URGENT

CARACAS, November 27, 1948.

906. Caracas quiet this morning with business returning normal, some sporadic shooting last night but much less than previous nights, horse races to be resumed today and bull fight tomorrow.

DONNELLY

831.01/11-2948

*Memorandum of Conversation, by the Acting Assistant Chief of the Division of North and West Coast Affairs (Krieg)*

[WASHINGTON,] November 29, 1948.

Subject: Request for Resumption of Relations with new Venezuelan Government

Participants: Señor Dr. Antonio Casas-Briceño, Counselor of Venezuelan Embassy  
Mr. Paul C. Daniels, Director for ARA  
Mr. William L. Krieg, NWC

Dr. Casas called by appointment on Mr. Daniels and informed him that Ambassador Carnevali<sup>1</sup> had resigned because of the overthrow of the Gallegos Government, that the new government had accepted his resignation and had designated him (Casas) as Chargé d'Affaires. Mr. Daniels emphasized that he was receiving Dr. Casas in his unofficial capacity as a Venezuelan citizen and not as Chargé representing the new government. Dr. Casas said he understood this.

Dr. Casas then set forth the arguments advanced by the military to justify their *coup d'état* against the constitutional government of Venezuela. He said that everyone had a great deal of respect for President Gallegos but that Gallegos had proved incompetent to administer the government, administrative inefficiency had been very marked and there had been a great deal of graft. Dr. Casas said that the country had very little to show for the enormous expenditures of money in the past year.

In the light of these circumstances, the officers of the Venezuelan Army had felt it necessary to take back the power which they had voluntarily turned over to Acción Democrática after the October 1945 revolution. A military junta had been formed to exercise the powers of the presidency and a cabinet had been appointed by the junta com-

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<sup>1</sup> Ambassador Gonzalo Carnevali.

posed partly of military men and partly of civilian technicians. Dr. Casas said the new cabinet contained many able men including Dr. Gómez Ruiz, the new Foreign Minister, and Dr. Rangel Lamus, Minister of Agriculture who had held the same post under López Contreras.<sup>2</sup> He added that the situation was normal and that the change had been welcomed by a majority of the Venezuelan people.

Dr. Casas went on to say that the new government had promised to respect foreign lives and investments and to observe the international obligations of Venezuela. He added emphatically that there had been no foreign influence involved in the setting up of the new government.

In reply to questions regarding the probable foreign policy of the new government, Dr. Casas said he had received no official information but that he understood the junta would probably resume relations with the Franco Spanish Government. He said he did not know what the policy would be toward the Dominican Republic but thought the government would probably move slowly in this regard so as to avoid criticism.

Mr. Daniels then explained carefully to Dr. Casas the basis of this Government's policy toward the continuity of diplomatic relations. He pointed out that the Inter-American System was the cornerstone of our national security and that the System obviously could not function properly if the various members did not maintain relations with each other. The Department therefore, he continued, is in favor of the principles set forth in Resolution 35 of the Bogotá Conference and wishes to place the question of maintenance of diplomatic relations on a firm basis entirely divorced from any consideration of the origin or composition of the respective governments. In these circumstances, then, the maintenance of diplomatic relations should not imply any judgment whatsoever, either favorable or unfavorable, on the governments involved.

Mr. Daniels went on to point out that the Bogotá Resolution does not provide any time schedule for resuming diplomatic relations and that it would be necessary to observe the development of events carefully in Caracas so as to take in consideration all factors before arriving at a decision. He concluded by expressing the desire to do everything possible on a personal basis to be of assistance.

As he was leaving the room Dr. Casas said he would furnish for the Department's information copies of the proclamations issued by the new government. These have been received and are attached.<sup>3</sup>

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<sup>2</sup> Eleázar López Contreras, President of Venezuela, 1935-1941.

<sup>3</sup> Not printed.

831.01/12-348 : Circular telegram

*The Acting Secretary of State to the Diplomatic Representatives in  
Certain American Republics*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, December 3, 1948—11 a. m.

Analysis developments Ven by our Emb does not indicate implication any foreign power. Also Gallegos Govt overthrown without collaboration any political party as such.

Principal issue was whether army should be brought under control civil govt which army considered monopolized Acción Democrática Party. Army officers considered army should retain autonomy and ability act independently of party. AD consistently and publicly contended army should retire from politics and be instrument elected constitutional govt.

Other issues were Army's desire stronger stand against communism, firmer policy towards labor, inflation, graft and administrative inefficiency.

Crisis has been building up for almost year. AD sought support by masses, organized labor, collected arms for use by party members. Party also attempted split army and place in key posts officers in confidence party. Party took steps create national police force to be used with national guard as counterweight to army.

Army officers with few exceptions were united in opposing these moves which considered threat to and encroachment on prerogatives.

At one stage army divided on tactics. Chief Staff Pérez Jiménez wished overthrow govt immediately. Min Defense Delgado Chalbaud wished obtain army desiderata by negotiations with Gallegos. Gallegos stalled after army demands presented Nov. 17. As negotiations dragged on and with AD threatening general strike Pérez Jiménez group gained strength and army garrisons acted. In crisis Army, National Guard and police of Caracas were united. General strike fizzled in less than 24 hours.

Pérez Jiménez, former Chief Staff and now member Junta and Min Defense, sent abroad by Ven Govt March 1948 visit mil establishments Guatemala, Mexico, Colombia, Ecuador, Peru, Bolivia, Chile and Arg. Among stated purposes trip was to ascertain views OAR on arms standardization and hemispheric defense policies. Reports from various missions indicate he argued against sending LA troops outside hemisphere and also opposed arms standardization. Pres new Junta, Delgado Chalbaud, has been very friendly towards US policies.

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<sup>1</sup> Sent to 14 Embassies, in Brazil, Bolivia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Peru.



Situation still uncertain according latest appraisal Amb Donnelly who recommends Dept defer decision (Deptcirtel Nov 29 <sup>2</sup>) re resumption normal relations. Dept continuing observe developments.

LOVETT

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<sup>2</sup> Not printed.

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831.00/12-448 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

SECRET US URGENT

CARACAS, December 4, 1948—3 p. m.

NIAC

933. Watch Officer inform ARA Daniels, Mills, Krieg immediately. Military Junta currently in control entire country without organized opposition. Curfew, censorship, military alert, suspension certain constitutional guarantees; sporadic firing night in Caracas principal exceptions normalcy. Reliably informed Military Junta considers necessary continue these measures some time order safeguard public order. Oil companies confirm reports from American Consuls and others that interior quiet. Stability Junta depends continued support united armed forces, has backing majority land-owning commercial and other conservative groups. Censorship and current stern attitude armed forces toward any overt opposition and bewilderment make difficult judge true feelings inarticulate rank and file but majority people after three years AD control probably have sufficient class consciousness be at least disturbed turn events. Their final opinion may be largely influenced by policies Junta and regime following it.

Substantial quantities AD arms already recovered but some still unaccounted for. Junta government formally undertaken comply with its international obligations (my despatch 905 November 29 <sup>1</sup>). Junta and Minister Fomento promised representatives American business respect their rights. Junta calls itself provisional, publicly disclaimed intention dictatorship and promised free elections unspecified future date.

In private informal conversation today Junta President Delgado Chalbaud asserted principal causes coup were Gallegos' inability or unwillingness prevent AD party calling general strike which army believed could resulted civil war and AD efforts cripple replace army with own forces. He affirmed Junta promise hold free elections, emphatically denied existence ties with other Latin American military regimes, saying it strictly internal affair. Expressed opposition national and international Communism, pledged unqualified support

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<sup>1</sup> Not printed.

Inter-American system and UN. Stated Venezuelan delegation UN will take line more consistent US policy, resignation UN delegate Zuloaga already accepted. Expressed desire continue US Military Naval Air Missions and intensify relationship with them. Promised respect free enterprise foreign capital and encourage foreign investments and skills. Promised respect existing oil and iron ore concessions and expressed disagreement with Gallegos Government refusal grant additional oil concessions. Said priority consideration would be given formulation wise labor policy, criticized AD policy of alleged meddling internal affairs other countries. Said Junta for tranquility in Caribbean; said Junta in collaboration with best brains in country would continue make decisions only after careful consideration problems avoiding injudicious action. This private meeting arranged at his request and no effort my part apply pressure obtain these assurances.

Delgado expressed hope early US recognition and belief protracted delay would encourage opposition attempt civil disorders. I was non-committal on recognition. Assuming no change present picture next few days, my views concerning recognition question (Deptel 487 November 30<sup>2</sup>) from pure viewpoint our relations with Venezuela are if US refuses or unduly delays in continuing friendly relations believe we must be prepared accept following principal risks:

(1) Political instability might ensue with possibility disorders endangering American lives properties and continued flow oil.

(2) Military Junta and its civilian partisans might be alienated with consequences which unforeseeable.

On other hand our recognition Junta would mean our acceptance these principal risks:

(1) It uncertain what kind new government will eventually evolve; may emerge ultra-conservative Latin American type military dictatorship which would provide fertile field for underground growth Communism and encourage realliance Communists with Liberal and Socialist opposition elements. There may emerge strong nationalistic type government or new political party sponsored by Military Junta which would seek popular support and submit to election in AD pattern after its electoral triumph assured.

(2) Whatever type government evolves may be influenced by nationalistic views Pérez Jiménez and his crowd who now riding high. I have no evidence intervention any Latin American power in revolution and pro-US views large majority Army officers and Cabinet provide good basis expectation Military Junta collaboration with US on most important international issues and I hope, on key domestic problems affecting our interests here. While I deplore overthrow constitutional government by force, I am of opinion that our national interests in Venezuela would on balance be best served by recognizing Junta

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<sup>2</sup> Not printed.

order minimize risk alienation opposition elements which important in long term and minimize risk US identification in Venezuelan public mind with Junta. I suggest recognition be accompanied by Department press release regarding Bogotá Resolution 35 and stating no approval policies new government, *implied* continuance friendly relations should neither be too hastily done nor too long delayed. My present thought is December 10 would be good date and will welcome Department views.

DONNELLY

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831.001 Gallegos, Romulo/12-648

*The Ambassador in Chile (Bowers) to the Secretary of State*

No. 763

SANTIAGO, December 6, 1948.

SIR: In amplification of Embassy telegram No. 786 of December 6, 1948, I have the honor to report that the Conservative newspaper *El Mercurio* of Santiago gave front page prominence to an interview given by former President Gallegos of Venezuela on his arrival in Havana where he had been exiled by the new military government of Venezuela. Gallegos told the Associated Press that reactionary Venezuelan groups and foreign capital were the causes of the situation in Venezuela which led to seizure of power by the military.

The opposition of Venezuelan reactionary forces and foreign petroleum companies to the social program of his government, and especially the government's determination not to grant further oil concessions, contributed to conditions leading to the revolt, he stated. A further cause of the coup, according to Gallegos, was the government's policy of a fifty per cent tax on the profits of petroleum companies. He also stated that a foreign military attaché was involved in the overthrow of his government but refused to reveal the nationality of the petroleum companies or the military attaché involved. He did, however, state that there was considerable Peruvian influence in the movement against his government pointing out that various military figures who had participated in the coup had studied in Peru. Despite his refusal to name directly the nationality of foreigners involved he did affirm that neither Argentina nor former Venezuelan Presidents Medina Angarita and Lopez Contreras were involved.

He attacked the United States for its neglect of Latin America stating that we were preoccupied with Europe and failed to see the dangers existing in America. Although former United States Governments have obtained the friendship of Latin America this feeling is rapidly diminishing, he said.

Gallegos charged that although he was well treated while held by the military government, various members of his Cabinet were badly



treated and even tortured. He stated that the military had not asked him for Cabinet posts as they knew he would not grant them but that they had asked him to deport Rómulo Betancourt, President of the Acción Democrática.

Former President Gallegos viewed the return to power of the military in Venezuela as indicative of a network of Andean dictatorships which have as their purpose the suppression of independent activities by political parties. He lamented the adoption of the recognition agreement at Bogotá and referred to it as the "mother" of many military coups.

He stated that he would remain in Havana a short time and then go to Mexico. Later, he said, he hoped to visit the United States where he would speak "very clearly".

Clippings of this editorial from *El Mercurio* are enclosed.<sup>1</sup>

Respectfully yours,

CLAUDE G. BOWERS

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<sup>1</sup> Not printed.

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711.31/12-648

*Memorandum of Conversation, by the Acting Assistant Chief of the Division of North and West Coast Affairs (Krieg)*

[WASHINGTON,] December 6, 1948.

Subject: Continuance of Relations between Venezuela and the United States.

Participants: Dr. José Rafael Pocaterra, Venezuelan Ambassador-designate to the United States  
 Dr. Antonio Casas-Briceño, Counselor of the Venezuelan Embassy  
 Mr. Paul C. Daniels, Director for ARA  
 Mr. William L. Krieg, NWC

Dr. Pocaterra has just arrived from Venezuela and called to acquaint Mr. Daniels with his views and those of the provisional Venezuelan Government on the subject of continuance of relations with the United States.

Dr. Pocaterra commenced by saying that he had visited Caracas about a month before the *coup d'état* which overthrew Gallegos and had returned to his post as Ambassador at Rio de Janeiro with the definite impression that a political upset was imminent. He said, however, that he did not wish to discuss Venezuelan internal affairs and the justification for the revolution, but would hand Mr. Daniels a memorandum<sup>1</sup> setting forth his views on this subject as well as the related matter of resuming relations.

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<sup>1</sup> Not printed.

He said that in his mind the important thing in hemispheric relations was unity. He stated that this had been recognized at the Bogotá Conference by the passage of Resolution 35 and pointed out that continuity of diplomatic relations is a most important factor in maintaining this essential unity. He added that, as it has publicly stated, the provisional Venezuelan Government will govern itself in conformity with its international obligations, and he said he could testify as an eye witness to the fact that quiet reigns all over the country and that life in Caracas has resumed its normal tempo.

Mr. Daniels explained that he was receiving Dr. Pocaterra in his purely personal capacity as a distinguished Venezuelan of outstanding accomplishments. He said that the events in Venezuela were naturally causing a great deal of preoccupation on the part of this Government, and it was a pleasure for him to exchange views with any representative Venezuelan citizen. Dr. Pocaterra said that he understood the informal nature of his reception. In reply to a request that Mr. Daniels acknowledge in writing the receipt of his memorandum, Mr. Daniels said that this would depend on many things including reasons of protocol, but that he would in any case give the memorandum his serious consideration.

Mr. Daniels then asked Dr. Pocaterra whether there had been any foreign influence involved in the Venezuelan revolution. Dr. Pocaterra denied categorically that there had been any such interference and stated that it was a purely domestic matter; that the Army had placed *Acción Democrática* in power and that they had now removed it.

Mr. Daniels then asked whether the revolution in Venezuela had been, in Dr. Pocaterra's opinion, a part of an international movement to set up military dictatorships in Latin America. Dr. Pocaterra assured Mr. Daniels earnestly that such is not the case and added that, as a man who had suffered under the Gomez dictatorship,<sup>2</sup> he would not lend his name and influence to any such movement.

Thirdly, Mr. Daniels inquired whether, in Dr. Pocaterra's opinion, the American oil companies had been involved in the revolutionary events. Dr. Pocaterra reiterated that it was a purely Venezuelan matter.

Mr. Daniels then stated that it was not within his power to give Dr. Pocaterra any assurances regarding the continuance of relations with the Venezuelan Government. He assured him, however, that all questions would be resolved in a spirit of good faith and in the desire to maintain the closest and most friendly relations between the United States and the Venezuelan people.

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<sup>2</sup> Gen. Juan Vicente Gómez, President of Venezuela, 1931-1935.

831.00/12-748 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the  
American Republics*

WASHINGTON, December 7, 1948.

Dept will issue at 10:30 A.M. Dec 8 following press release:

"Charges have appeared in the press that United States petroleum companies backed the military group which recently overthrew the Government of President Rómulo Gallegos in Venezuela.

At least two American petroleum companies are reported by the press to have already issued statements denying any intervention in Venezuelan internal affairs. The Department of State knows of no evidence or indications of any kind which would give the slightest support to such charges. It can be stated that as far as is known to the Department American companies and other entities represented in Venezuela avoided participation of any kind in the Venezuelan revolution of last month. Americans residing abroad have repeatedly been warned that interference in the domestic political affairs of foreign states may result in the withdrawal of U.S. Government protection, and the Department takes this opportunity of reiterating and emphasizing this injunction."

LOVETT

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831.01/12-748

*Memorandum of Conversation, by the Acting Secretary of State*

[WASHINGTON,] December 7, 1948.

Participants: The Acting Secretary of State  
Ambassador Gonzalo Carnevali of Venezuela  
Mr. Paul C. Daniels, Director for ARA  
Mr. William L. Krieg, NWC

Ambassador Gonzalo Carnevali called upon me this afternoon at his request and inquired regarding the Department's position on continuing relations with the new Government in Venezuela. Mr. Daniels stated that the Department viewed with regret the overthrow of a democratic constitutional government and said that we were still observing the course of events and that no decision had been arrived at yet.

Ambassador Carnevali then explained that he had studied Resolution 35 of the Inter-American Conference at Bogotá and that he found nothing which would compel the United States to continue relations with the Caracas military junta. He said as far as he could tell the question of recognition of *de facto* governments had been referred to the Inter-American Council of Jurists at Rio de Janeiro for further study. I pointed out that there were three factors involved in Resolu-



tion 35: (1) That recognition should not be used as a political weapon; (2) That continuity of diplomatic relations among the American States is desirable. . . . At that point Ambassador Carnevali interrupted and said there were many things in life which were desirable but that it was not always practical or possible to have them.

Ambassador Carnevali then painted a very black view regarding conditions in Venezuela. He said that the cabinet ministers, the leaders of Acción Democrática party, most of the leading members of Congress and the most prominent labor leaders, were all imprisoned, and that Dr. Lander, the President of the Chamber of Deputies, had been tortured. He said he had ascertained this last fact in a telephone conversation with President Gallegos.

I inquired whether any political party was taking part in the new Government, and Ambassador Carnevali said that no political party was involved. He went on to say a democratic government was impossible because the vast majority of votes had been cast in the last election for Acción Democrática but that other parties had also participated in the elections which had been completely free and fair.

I inquired how it had been possible for a small military group to take over the Government against the will of so large a majority. He said it had been done by force of arms and intimidation, but he prophesied that as soon as the present restrictive measures are removed, there would be trouble in Caracas. He added that the activity of the labor unions had been rendered ineffective by the confiscation of their funds and the imprisonment of their leaders.

Ambassador Carnevali strongly urged that the United States delay resuming relations with the new Venezuelan Government. He said that President Gallegos was known in every home throughout Latin America and that his prestige with the common people everywhere was enormous. He pointed out that the Mexican Government had withdrawn its Ambassador from Caracas and that the Cuban Government had offered to permit Gallegos to set up a government in exile in Habana.

On the other hand, the only nations which have recognized so far were Argentina, Paraguay and Peru. He intimated that Argentine influences were responsible for the revolutions in Peru and Venezuela as well as for the unsuccessful plot in Chile, and said that he interpreted President Gallegos' statement about the Military Attaché of a large power having been present in a barracks on the day of the coup as referring to the Argentine Military Attaché. In answer to a direct question, he said that he did not think that President Gallegos had referred to the U.S. Military Attaché in this connection.

He went on to say that United States recognition would precipitate a series of military revolutions in Ecuador, Bolivia, Colombia and

Cuba, and in conclusion he presented me with two documents<sup>1</sup> setting forth his own views and those of the former Foreign Minister, Dr. Blanco, on the Venezuelan revolution.

ROBERT A. LOVETT

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<sup>1</sup> Not printed.

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Policy Planning Staff Files: Lot No. 64-D-563: PPS Papers

*Memorandum by the Director of the Policy Planning Staff (Kennan)  
to the Acting Secretary of State*

PPS 47

[WASHINGTON,] December 10, 1948.

CONFIDENTIAL

Subject: Recognition of New Venezuelan Government

MR. LOVETT: In response to your request, the Policy Planning Staff has examined the question of the recognition of the new government in Venezuela. In doing so, it has consulted with the interested officers of ARA and has given careful consideration to their views.

It has come to the following conclusions:

(1) It cannot be demonstrated that any useful purpose would be served by a protracted withholding of recognition of the new Venezuelan government. United States recognition should be accorded after an interval neither so short as to be undignified nor so long as to make a prestige issue of the recognition question.

(2) On the other hand, this Government should find suitable means at the time recognition is extended to reiterate its view that the use of force as an instrument of political change is deplorable, inconsistent with the acknowledged ideals of American Republics and increasingly dangerous to all countries in this Hemisphere. It should be stressed that we cannot remain indifferent to this sort of thing, and that if there is an increased resort to this sort of procedure in other American countries, this will create a serious issue which will have to engage the attention of the American community as a whole.

The reasons for these conclusions are the following:

(1) *With respect to recognition:*

(a) The normal policy of this Government, as embodied in PPS/24 of March 15, 1948,<sup>1</sup> approved by the Secretary, would be to extend recognition in a case of this sort, provided there is no impelling contrary consideration of national interest.

The following paragraphs from that paper are pertinent in this connection:

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<sup>1</sup> *Ante*, p. 17.

"10. Recognition of a government by the United States should imply neither approval nor disapproval of the policies of that government with respect to strictly domestic affairs.

"11. Recognition should not be withheld as a political weapon or to express moral censure except in extreme cases when U.S. national interests would be served thereby."

If, therefore, we were to withhold recognition, we should have to be able to show strong and unusual reasons for doing so.

(b) In the present case recognition is recommended by our representative on the spot, who expresses the opinion that "our national interests in Venezuela would on balance be best served by recognizing Junta" and that it "should neither be too hastily done nor too long delayed."

(c) If we were to withhold recognition, we would have to be fairly sure that we could see before us, as a result of our taking this position, a probable favorable course of events. In the present case, we cannot see that.

As far as the internal affairs in Venezuela are concerned, there appears to be greater likelihood of an orderly political procedure, eventually involving popular elections and peaceful regularization of government, if the new regime is encouraged to carry out its present promises than if we attempt to oppose it by international action.

As for the international situation, although the only three American countries which already have recognized the new regime are Argentina, Peru, and Paraguay, the neighbor most immediately concerned—Colombia—has every intention of doing so. If we withhold recognition, the question arises of the extent to which our position will be supported by other American governments. A few of them probably would stand with us, but if most of the others do not support us our withholding of recognition presumably will not achieve any decisive results; eventually we will presumably have to recognize; in this event, we will give a gratuitous prestige bonus to the new regime. If on the other hand, most of the American countries do support us, then we will have achieved at best a conspicuous split in the American community over a thorny and difficult issue. There might be merit in this if we had come to the deliberate conclusion that we wished to make this a major issue at this time, with a view to the total elimination of further changes of government by force in the area. However, we have not made such a determination or even examined it thoroughly; and there is little likelihood that we would find, on further study, that this is a suitable time for such a move, nor that the question of recognition would be a suitable touchstone.

(d) In the light of the above, it seems evident to us that non-recognition is not a suitable weapon for influencing the course of internal events in Venezuela at this time.



(e) In these circumstances, we should be careful to make sure that the recognition question does not attain in the public mind a prestige significance. That means that recognition should appear to come as the result of a normal and considered decision, but not as a favorable judgment on the character of the Venezuelan regime.

On the other hand, we should not show any undignified haste and should not rush in to join the Argentine and others as the first countries to extend such recognition.

(2) *Statement of our Basic Position*

The Preamble of the Rio Pact<sup>2</sup> contained the following passage.

"That the American regional community affirms as a manifest truth that juridical organisation is a necessary prerequisite of security and peace, and that peace is founded on justice and moral order and, consequently, on the international recognition and protection of human rights and freedoms, on the indispensable well-being of the people, and on the effectiveness of democracy for the international realization of justice and security."

We consider it important that, in according recognition to the new Venezuelan regime, we do it in such a way that it cannot be interpreted as a departure by this Government from the principles of the Rio Treaty cited above. There is a danger that in view of the initial extension of recognition by Argentina and Peru, United States recognition might be interpreted as a gesture of approval for the domestic quality of the new regime.

There are a number of ways in which the basic position of this Government on the point of question can be brought before world opinion at the time recognition is extended. This question should be decided in the Department, as an operational matter.

GEORGE F. KENNAN

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<sup>2</sup> For text, see Inter-American Conference for the Maintenance of Continental Peace and Security, Quitandinha, Brazil, August 15–September 2, 1947, *Report of the Delegation of the United States*, p. 59.

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831.001 Gallegos, Romulo/12-648: Telegram

*The Acting Secretary of State to the Embassy in Venezuela*

SECRET      PRIORITY      WASHINGTON, December 10, 1948.

511. Following sent to Emb Habana Dec. 10:

"Dept and Amb Caracas seriously concerned regarding charges attributed by press to Pres Gallegos of Venezuela that US oil companies were behind military revolution which overthrew Gallegos and that US Mil Attaché acted as 'cooperator and counselor' for revolutionists.

"Following is statement of facts as cabled by Emb Caracas: (Repeated full texts Embtels 939 and 951<sup>1</sup>).

"In view seriousness charges Dept considers it inadvisable defer issuance press statement until after interview with Gallegos. Text statement made will be sent you by telegram.<sup>2</sup>

"Dept feels sending officer from Wash to confer with Gallegos would tend overemphasize situation, possibly result in too much publicity and prejudice relations with new Venez regime. Subject your approval, suggest Allan Stewart<sup>3</sup> your staff discreetly contact Gallegos and explain circumstances outlined in Caracas tels. . . . He may say Dept and Emb Caracas sincerely regret Col. Adams'<sup>4</sup> presence at Min Nat Def and Miraflores misinterpreted, assure him US always friendly his Govt. He may also say Dept has instructed Amb Caracas inform Brinsmade<sup>5</sup> Depts strong disapproval his actions and warn him loss of Govt protection.

"Dept convinced oil industry not involved in any way; would appreciate knowing basis for Gallegos charges which will be thoroughly investigated. Dept in close touch with representatives principal oil companies during crisis and can assure Gallegos they expressed no sentiments favorable his overthrow and on contrary indicated satisfaction with cooperation received his Govt. Major companies agreed in principle to 50 percent excess profits tax many months ago and no reason believe they changed position.

"If Gallegos raises question US relations with new Venez Govt Stewart may explain US endeavoring adhere strictly inter-American commitments which expressly condemn use recognition as political weapon. Dept also considering issuance statement making clear we favor democratic constitutional procedures and decry use force in effecting political changes.

"US Govt has always considered Gallegos sincere friend of US spite charges his political opponents and regrets his present apparent feeling hostility.

"Inform Dept and Emb Caracas soonest action taken."

LOVETT

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<sup>1</sup> Neither printed.

<sup>2</sup> See circular airgram, December 13, 8:50 a. m., *infra*.

<sup>3</sup> C. Allan Stewart, attaché.

<sup>4</sup> Col. Edward D. Adams, military attaché.

<sup>5</sup> Robert T. Brinsmade, a United States national residing in Caracas who admittedly had intervened in the Venezuelan coup on the military side.

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831.00/12-1348: Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics, Except Venezuela and Cuba*

WASHINGTON, December 13, 1948—8:50 a. m.

The Department issued following press release December 10:

A United Press report from Habana, Cuba dated December 9, 1948 quotes His Excellency Rómulo Gallegos, exiled President of Vene-

zuela, as "demanding" that the United States Government explain the presence of its Military Attaché at the Caracas army barracks during the military revolt of November 24. Sr. Gallegos is further quoted as having stated that the Military Attaché of the United States acted as "cooperator or counselor" for the revolutionists.

According to information received from the American Ambassador in Caracas the Military Attaché of the United States, Col. Edward F. Adams, did visit the Ministry of National Defense on November 24. The purpose of this visit was to inquire if there was any news from our Air Attaché at Caracas who a few days earlier had left for a sparsely populated region of Venezuela known as the Gran Sabana to search for a lost U.S. military plane. No word had been received from him, giving rise to serious concern.

Despite the political crisis it was not felt advisable to defer this inquiry because of the nature of the emergency. Shortly after noon the same day Col. Adams visited the Presidential Palace, Miraflores, on the same errand. There he met Venezuelan officers of his acquaintance who confirmed an earlier radio report that the Army had taken over the Government. The American Ambassador has informed the Department that Col. Adams has stated categorically that in none of his conversations did he indicate any partiality for either side involved in the political crisis or give any advice or express opinions which could be interpreted as constituting intervention in Venezuelan domestic affairs.

It is regretted that Sr. Gallegos, not knowing the emergency reasons for the visits of Col. Adams to the Ministry of Defense and the Presidential Palace on November 24, concluded that they had some other purpose, even though Sr. Gallegos cannot but be aware of the record of this Government in adhering strictly to its non-intervention commitments. Standing instructions of the Department to all U.S. missions prescribe that officials of this Government must not intervene in the internal political affairs of any foreign Government. There is no basis for belief that any member of the Embassy staff failed to live up to this standing injunction during the recent political crisis in Venezuela.

LOVETT

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S31.01/12-1548

*Memorandum by Mr. George H. Butler, of the Policy Planning Staff,  
to the Acting Secretary of State*<sup>1</sup>

WASHINGTON, December 15, 1948.

I am returning to you the file on the case of the recognition of the new Venezuelan Government. The top paper is a re-draft of the circular telegram to our diplomatic missions in the other American Re-

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<sup>1</sup> Marginal notes by the Acting Secretary: "This was cleared with President 12:30 December 16th. L[ovett]" and "NB No step toward recognition to be taken without Presidential clearance. L[ovett]."



publics.<sup>2</sup> This re-draft has been agreed to by Messrs. Daniels, Woodward, Mills and me, and is submitted for your consideration.

Immediately underlying the circular telegram is a letter to you from Mr. Forrestal which encloses a memorandum from the Secretary of the Army stating that the Department of the Army believes that the recognition of the new Venezuelan Government is militarily favorable to the United States. This letter from Mr. Forrestal reached ARA after you had turned the file over to me and so you may not have seen it.

Mr. Daniels and I will keep in touch with each other regarding any instructions you may give to either of us regarding subsequent action to be taken.

GEORGE H. BUTLER

[Attachment]

*The Secretary of Defense (Forrestal) to the Acting Secretary of State*

TOP SECRET

WASHINGTON, December 10, 1948.

DEAR MR. SECRETARY: With reference to our conversations concerning the wisdom of recognizing or not recognizing the new Venezuelan Government, I believe you will be interested in reading the attached memorandum to me from the Secretary of the Army, dated 9 December 1948. This memorandum was prepared in response to my inquiry concerning what, if any, military implications were involved in the recognition or non-recognition of this new government.

Sincerely yours,

JAMES FORRESTAL

[Sub-Attachment]

*The Secretary of the Army (Royall) to the Secretary of Defense (Forrestal)*

TOP SECRET

WASHINGTON, December 9, 1948.

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: Military Implications of Recognition or Non-Recognition of the New Venezuelan Government.

From the viewpoint of the Department of the Army there are two major considerations involved in the recognition or non-recognition of the new Venezuelan Government: first, the need for an uninterrupted supply of Venezuelan oil for the United States and second, the desirability of maintaining a U.S. Military Mission in Venezuela. The

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<sup>2</sup> *Infra.*

new Government of Venezuela may be expected to provide more adequate security measures for the oil production area than a reinstated Gallegos Government which would depend for a part of its support on unions sympathetic to Communistic aims. Recognition of the new Government of Venezuela would permit the continuance of the U.S. Army Mission in Venezuela, and the subsequent influencing of a generally pro-United States element thereby furthering Venezuelan orientation toward the United States.

The Department of the Army believes that the recognition of the new Venezuelan Government is militarily favorable to the United States.

KENNETH C. ROYALL

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831.01/12-1648: Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*<sup>1</sup>

WASHINGTON, December 16, 1948—10 a. m.

Recent overthrow popularly elected Govt in Venez is cause concern US Govt. Views expressed during discussions highest level include following:

1. Use of force as an instrument of political change of duly elected Govts is deplorable, inconsistent with acknowledged ideals Amer Reps, and increasingly dangerous to all countries this hemisphere.

2. If this sort procedure continues, US cannot remain indifferent and believes issue would be serious one which must engage attention Amer community as a whole.

3. While Res 35 Bogotá Conf declares that continuity of diplomatic relations among Amer States is desirable, and that establishment or maintenance diplomatic relations with a Govt does not imply any judgment upon domestic policy that Govt, Preamble Rio Treaty states "that peace is founded . . . on the effectiveness of democracy for the international realization of justice and security", and charter OAS states "The solidarity of the Amer States and the high aims which are sought through it require the political organization of those States on the basis of the effective exercise of representative democracy".

4. US wishes make every legitimate and useful effort encourage development democratic and constitutional procedures since these are fundamental ideals and aspirations peoples all Amer Reps and embody sound principles for development representative and stable Govts which will strengthen hemisphere. In doing so US Govt endeavoring comply faithfully with inter-Amer commitments and procedures.

Unless there are compelling reasons to contrary, of which Dept should be promptly informed, you should discuss substance numbered

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<sup>1</sup> Marginal penned initials: "H[arry] S T[uman]."

paragraphs with FonMin country to which accredited and state your Govt would appreciate receiving his comment on legitimate and appropriate actions Inter-Amer Organization might take to strengthen democratic and constitutional framework of Govt this continent.

For your confidential background info Amer Amb Caracas expresses opinion that "Our national interests in Venez would on balance be best served by recognizing Junta" and that recognition "should neither be too hastily done nor too long delayed."

Decision Dept not yet taken. An important consideration in this Govt's approval Bogotá Res 35 was belief that non-recognition is not a suitable approach to much broader problem of dictatorships and use of force as a political procedure, and this continues to be view this Govt. However, Dept deems time opportune for informal exchanges views these broader questions.

If and when US resumes normal relations with Venez thought has been given to including in note Amb Caracas would be authorized send passage somewhat as follows:

"My Govt has noted Y.E.'s statement that the new administration will strictly fulfill its international obligations. It has also noted a passage in an address delivered on Nov 26 by H.E. the Pres of the Junta in which it is stated that the Junta has not assumed power as an attempt against democratic principles but in order to secure their effective application and to prepare for elections in which all citizens will participate under conditions of equality.

"My Govt attaches importance to this statement particularly in view of cardinal principal found in the Charter of Org of Amer States, namely: (here to follow Art 5(d) of Charter which was quoted in numbered paragraph 3 above)."

Such a statement would make it clear this Govt expects Venez to return to democratic practices, as promised Venez people, as soon as possible and this Govt would be watching to see if this is done. You might seek opinion FonMin whether inclusion such statement in notes from other countries which have not yet resumed relations would have desired effect Venez and make impression throughout hemisphere.

Report views Govt to which accredited re broad problem and specific question relations Venez.

LOVETT

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831.001 Gallegos, Romulo/12-1748: Telegram

*The Acting Secretary of State to the Embassy in Cuba*

SECRET      NIACT

WASHINGTON, December 17, 1948.

836. You are authorized receive Gallegos and, in ur discretion, discuss in conf with him substance numbered paras one to four inc.



Deptcirtel Dec 16. You may also indicate Depts decision on recognition not yet made. (Urtel 805, Dec 17<sup>1</sup>).

Dept regrets Gallegos not convinced presence Mil Att at barracks in presidential palace due innocent motives and can only assure him again Adams not involved plotting.

LOVETT

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<sup>1</sup> Not printed.

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831.001 Gallegos, Romulo/12-1848: Telegram

*The Ambassador in Cuba (Butler) to the Secretary of State*

SECRET US URGENT

HABANA, December 18, 1948—2 p. m.

810. Deptel 836, December 17. During cordial one-hour interview this morning Gallegos read letter he addressed 16th [15th] to President Truman,<sup>1</sup> original of which delivered Department yesterday by Venezuelan Ambassador. Letter in effect accepts our statements US not involved and appeals President for support.<sup>2</sup>

I discussed four paragraphs Depcirtel December 16 which he seemed glad to hear.

In talking about overthrow he emphasized effect of success Peruvian junta had on Majors Pérez Jiménez and Llanas Paez but made no mention Argentine or other foreign influences. He reiterated previous denial newspaper reports quoting him as having blamed US for coup. He was aware Cuban Communists trying use him. (Later explained to Stewart Communists used Marinello, personal intellectual friend, as their contact with him. Said he told Marinello he would publicly define his friendly position toward US if Communists continued exploit him in their anti-US propaganda.)

I told him Department's decision on recognition not yet made. He offered no comment.

Sent Department 810; repeated Caracas 13.

BUTLER

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<sup>1</sup> Not printed.

<sup>2</sup> In his reply of February 3, 1949, not printed, President Truman stated, in part:

"My Dear Friend: I have been sincerely moved by your letter of December 15. The overthrow of the Government over which you presided came as a great shock to me, and I have personally concerned myself with this question from the beginning.

"I am happy you have accepted the sincere statements issued by our Department of State regarding the non-participation in the *coup d'état* of American interests or of officials of this Government, and I wish to reiterate these assurances to you personally at this time. It was considerate of you to make public your acceptance of these explanations." (831.001 Gallegos, Romulo/2-349)

831.01/12-2848 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the  
American Republics*

WASHINGTON, December 28, 1948—4 a. m.

Deptcirtel Dec 16 quoted language US contemplated including note to Ven FonMin if and when normal relations resumed. As result further consideration and exchange views we are considering altering text to read as follows :

“My Govt has noted Y.E.’s statement that new administration will strictly fulfill its international obligations. It has also noted passage in address delivered Nov 26 by H.E. Pres. of Junta in which stated new Govt will prepare for elections in which all citizens will participate under conditions of equality.”

Remainder same as given Deptcirtel Dec 16.

Omitted from revised text is resumé of remarks by Pres Junta to effect Junta has not assumed power as an attempt against democratic principles but in order to secure their effective application. It has been pointed out repetition such statement in note might be taken as acceptance by this Govt of Junta’s interpretation its purpose in overthrowing previous Govt.

Of Govts consulted only Mexico has indicated disapproval inclusion such language in note resuming relations which it considers would savor intervention internal affairs. Some other Govts propose omission from note but public statement in similar sense. Mexico, Cuba, Guatemala and Uruguay have indicated will delay resumption relations indefinitely. Several other Govts which have not resumed relations of opinion important question now is when to resume relations. Chil FonMin considers delay should be sufficient attract attention and cause concern those contemplating similar coups. US considers following have made our disapproval impressive : (1) several weeks elapsed since Nov 24 seizure, without resumption relations; (2) exchange of views among Amer Reps on general question *de facto* Govts; (3) public statements by US and Chile condemning coups; (4) language US, Chile and perhaps others propose including in notes resuming relations; (5) publicity to be given such notes.

Net effect exchange views strengthen Dept’s position non-recognition not suitable instrument for strengthening democratic framework. Careful consideration being given several other suggestions recd.

LOVETT

831.00/1-449: Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics, Except Cuba and Venezuela*

WASHINGTON, January 4, 1949.

Embassy Habana reports that prior to leaving Habana Jan 3 for visit in Miami Gallegos told press he had received from State Dept completely satisfactory explanation activities US in Caracas.

Gallegos by this act has publicly confirmed what he stated privately some time ago, namely his recognition that charges of US involvement in Venez coup are completely false.

LOVETT

831.01/1-1349: Telegram

*The Acting Secretary of State to the Embassy in Venezuela*

US URGENT

WASHINGTON, January 13, 1949.

12. Dept feels exchange of views with other Amer Reps and its press release Dec 21<sup>1</sup> have made clear our belief use of force as instrument political change of duly elected Govts inconsistent ideals Amer Reps. Dept also convinced non-recognition not suitable approach to problem and concludes no useful purpose would be served in further delaying resumption normal relations with Ven Govt.

You shld therefore on Jan 21 send or in ur discretion deliver in person to FonMin note replying his note Nov 25. Subject any changes you deem advisable, which shld be approved in advance by Dept, text reply shld be as follows:

"I have the honor to ack receipt of Your Excellency's note dated Nov 25, 1948 informing me that a Military Junta of Govt has been constituted under the Presidency of Lt. Colonel Carlos Delgado Chalbaud in which Your Excellency has been designated to serve as Minister of Foreign Relations.

"My Govt has noted Your Excellency's statement that the new administration will strictly fulfill its international obligations. It has also noted a passage in an address delivered on Nov. 26, 1948 by His Excellency the President of the Junta in which it is stated that the Junta will prepare for elections in which all citizens will participate under conditions of equality.

"My Govt attaches importance to this statement particularly in view of a cardinal principle found in the Charter of the Organization of Amer States, namely:

<sup>1</sup> For text, see Department of State *Bulletin*, January 2, 1949, p. 30.



'The solidarity of the Amer States and the high aims which are sought through it require the political organization of those States on the basis of the effective exercise of representative democracy'.

"Under instructions from my Govt, I have the honor to express to Your Excellency the hope that the cordial relations which have long existed between Ven and the US will continue unimpaired.

"Accept, Excellency, the assurances of my highest consideration."

Upon receipt advice ur note has been delivered Dept will issue press release including texts two notes.<sup>2</sup>

Govts OAR and Canada being informed our proposed action.

LOVETT

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<sup>2</sup> Department of State *Bulletin*, February 6, 1949, pp. 172-173.

# UNITED STATES SUPPORT OF INTER-AMERICAN COLLECTIVE ACTION FOR PEACEFUL SETTLEMENT OF DISPUTES

731.39/12-2347

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*

## VENEZUELAN-DOMINICAN RELATIONS

WASHINGTON, December 23, 1947.

SIRS: For your information there is enclosed a copy of a letter, together with copies of its enclosures, dated December 4, 1947,<sup>1</sup> which was sent on December 5 by the Venezuelan Representative on the Governing Board of the Pan American Union, who is also Venezuelan Ambassador in Washington, to the Representatives of other countries on the Governing Board with the exception of Representatives of Nicaragua and the Dominican Republic with which Venezuela does not maintain diplomatic relations.

You will note that the letter denies charges made last month by the Dominican Ambassador in Washington to the effect that a force is being concentrated on the Paraguaná Peninsula for an attempted invasion of the Dominican Republic, refers to a reported sale of arms by Brazil to the Dominican Republic,<sup>2</sup> and mentions various actions by the authorities of the Dominican Republic which the Venezuelan Government considers menacing.

Without doubt those Representatives on the Governing Board of the Union who received this communication will refer it to their Governments and ask instructions. You are requested to inform the Department of any information which comes to your attention regarding the nature of the instructions on this subject sent to the Representative on the Governing Board of the country to which you are accredited.

The Representative of the United States on the Governing Board<sup>3</sup> in acknowledging receipt of the communication in question has in-

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<sup>1</sup> Not printed; but see a memorandum of conversation by the Chief of the Division of North and West Coast Affairs (Mills), December 9, 1947, in *Foreign Relations*, 1947, vol. VIII, p. 136.

<sup>2</sup> For documentation on this subject, see *ibid.*, pp. 131 ff.

<sup>3</sup> Ambassador William Dawson.

formed the Venezuelan Ambassador that he has referred it to the Department. He is being instructed to keep the Department informed of the reactions of his colleagues on the Board to this Venezuelan initiative, and to support any move by the Venezuelan Representative to have the Governing Board take cognizance of the matter and initiate action aimed at eliminating the mutually suspicious feeling which recently has characterized the attitudes of the Venezuelan and Dominican Governments towards each other.

Very truly yours,

For the Acting Secretary of State:  
NORMAN ARMOUR

731.39/1-248

*The Ambassador in the Dominican Republic (Butler) to the Secretary of State*

[Extract]

CONFIDENTIAL  
No. 6

CIUDAD TRUJILLO, January 2, 1948.

SIR: Referring to the Embassy's despatch no. 3 of January 2, 1948,<sup>1</sup> I have the honor to report further regarding Dominican note no. 35841 of December 30, 1947,<sup>1</sup> which charges that a revolutionary movement directed against the Dominican Government is being organized in Venezuela.

The charges which the Dominican Government makes against the Venezuelan Government are countered by similar charges of Venezuela against the Dominican Republic. Each protests its innocence of any political or revolutionary activity against the other. In the face of this situation, it is, of course, extremely difficult for the Department to accept at face value any of the categoric charges and solemn protestations which it is receiving. . . .

Improvement in the situation seems unlikely unless some collective international action can be taken. The following seem to be valid reasons for exploring carefully the possibility of such action:

(a) if the present situation continues, it may become a disrupting issue at the Inter-American Conference to be held at Bogotá the latter part of March, 1948; <sup>2</sup>

<sup>1</sup> Not printed.

<sup>2</sup> For documentation on this subject, see pp. 1 ff.



(b) the Treaty of Mutual Assistance signed at Rio de Janeiro last year<sup>4</sup> makes it clear that the American republics prefer to handle problems relating to security and to the pacific settlement of disputes in the Western Hemisphere within the inter-American system before they are referred to the United Nations, but if this is to be possible the American republics must follow up the signature of their various treaties and conventions by effective action in carrying out the provisions thereof;

(c) armaments in practically all of the Latin American countries already represent a much too heavy burden for the economies of those countries, particularly at a time when those countries are appealing for and expressing dissatisfaction with the extent of United States aid to improve their economic, financial and social positions;

(d) it is unlikely that inter-American collective action in support of peace, security and the welfare of peoples will be initiated or will succeed unless the United States takes determined and continuing leadership.

In spite of the many major critical problems with which the Department is faced, some remedial action in the Caribbean area in the near future may well prevent the development of a serious situation which would represent a much heavier future demand on the Department's time and attention.<sup>5</sup>

Respectfully yours,

GEORGE H. BUTLER

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<sup>4</sup> For the Inter-American treaty of reciprocal assistance, opened for signature at Rio de Janeiro September 2, 1947, see Department of State Treaties and Other International Acts Series 1838, or 21 UNTS 77. For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.

<sup>5</sup> In a memorandum of January 16, 1948, to the Acting Chief, Division of Caribbean Affairs (Walker), the Director of the Office of American Republic Affairs (Daniels) requested that Mr. Walker discuss with the Chief, Division of Special Inter-American Affairs (Dreier) and Ambassador Dawson the further possibilities of inter-American collective action in regard to this state of friction in the Caribbean, in line with Ambassador Butler's suggestions (731.39/1-248).

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731.39/1-848

*Memorandum of Conversation, by Mr. Charles C. Hauch of the  
Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] January 8, 1948.

Subject: Alleged Venezuelan and Haitian Involvement in Revolutionary Activities against Dominican Republic

Participants: Ambassador Luis F. Thomen—Dominican Republic  
Mr. Daniels—Director, ARA  
Mr. Walker—Acting Chief, CRB  
Mr. Hauch—CRB

The Dominican Ambassador called at his request. . . .

In the course of the conversation the Ambassador presented two notes<sup>1</sup> which he outlined orally. The first of these (copy in translation,

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<sup>1</sup> Neither printed.

with enclosure, attached) transmitted an eight-page memorandum regarding alleged Venezuelan and Haitian involvement in revolutionary activities against the Dominican Republic. The second, copy in translation also attached, set forth the Dominican Government's concern at alleged efforts of the Venezuelan Government to obtain warships in the United States.

The Ambassador spent considerable time outlining the contents of the memorandum accompanying the first-mentioned note. He said that President Betancourt of Venezuela<sup>2</sup> is the ringleader of revolutionary activities against his country. Among Venezuelan acts he mentioned that Venezuelan agents in Puerto Rico are endeavoring to create an unfriendly feeling towards the Dominican Republic and have been recruiting men in Puerto Rico to engage in revolutionary activities. Mr. Daniels immediately stated that he would cause an investigation to be made in Puerto Rico regarding any recruitment of revolutionary personnel and would take any other steps necessary to comply with our international obligations. The Ambassador said the FBI was already following the situation in Puerto Rico very closely and expressed his gratification for that agency's activities.

The Ambassador then said that the most serious recent development has been the attitude taken by the Government of Haiti. After orally expounding the Dominican views on this point, as set forth in the memorandum and its attachments, the Ambassador stated that as a result of Haiti's involvement in the revolutionary activities the situation between the two countries was very serious and that unpleasant developments endangering the peace of the hemisphere might result. He added that the Dominican Republic intended to use all means at its disposal to protect itself from aggression.

Mr. Daniels said he was deeply disturbed by the Ambassador's remarks. Speaking entirely informally and not as representing the official view of the Department, he raised the possibility of having the charges and counter-charges of revolutionary activities considered by some inter-American body. Whatever procedure might be agreed on along this line should, of course, have the principal support of the parties to the disagreement, since they have the main interest in the matter. Mr. Daniels then inquired whether the Ambassador had any specific procedure in mind with respect to investigation, consultation, or mediation. The Ambassador replied that he had nothing specific to suggest and added that in the case of an incident with Haiti endangering the peace of the Island there would not be time for mediation.

Mr. Daniels then inquired whether the Governing Board of the Pan American Union has not been considering the revolutionary charges and countercharges. He personally thought that perhaps the

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<sup>2</sup> Romulo Betancourt, President of the Revolutionary Junta.

Board might be in a position to suggest a procedure for handling this problem. He emphasized that this Government has so far refrained from taking the initiative in making official suggestions because it is a new departure in inter-American procedures. Again emphasizing that he was speaking entirely personally and unofficially, Mr. Daniels said something in the nature of the procedure outlined in the proposed inter-American pact giving the Governing Board consultative functions might be a channel for handling the problem. He said he would like to be informed of the views of the Dominican and other governments on the possibility of having the question handled through the consultative procedures of the Governing Board.

The Ambassador then reviewed the steps taken by his Government with a view to getting the problem before the American republics and inter-American bodies. He said that his Foreign Office had recently transmitted a second note to the Ministers of Foreign Affairs of the American republics, through the channel of their diplomatic missions in Ciudad Trujillo. The previous one of August 30 concerned the revolutionary preparations in Cuba (*Note: Despatch No. 6 of January 2, 1948 transmitted translation of the Dominican Foreign Office note mentioned by the Ambassador.*) The Ambassador also stated that his Government had referred the question of revolutionary activities to the committee of five set up pursuant to the Act of Habana of 1940.<sup>3</sup>

The Ambassador then said that the Dominican request of the Director General of the Pan American Union to transmit a note of complaint to the Governments of Venezuela and Guatemala had been withdrawn because it involved a new question of procedure and neither the Ambassador nor the Foreign Office wished to use this channel in view of the fact that Mr. Armour did not specifically recall having suggested it. He repeated the remark he had previously made that he recalled Mr. Armour had suggested the Pan American Union as a possible transmitting agent.

Mr. Daniels said that all the American republics should be in accord on the proper procedure to handle a problem of this nature, particularly those directly involved. He said these charges and countercharges presented a challenge to all the republics and not merely to the United States. He added that were he talking to the Venezuelan and Haitian Ambassadors he would speak in the same way. As for the Dominican apprehension at the alleged Haitian actions, Mr. Daniels remarked that perhaps the Haitians were likewise apprehensive of the Domini-

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<sup>3</sup> For the texts of the Act and Convention of the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, July 1940, see Department of State *Bulletin*, August 24, 1940, pp. 127 ff. For documentation on the meeting, see *Foreign Relations*, 1940, vol. v, pp. 180 ff.



can Republic. The Ambassador observed that this was entirely possible.

The Ambassador then passed to the second note regarding efforts of Venezuela to obtain warships in the United States. He observed that Venezuela has received arms and aircraft in this country. Venezuelan efforts to obtain ships were viewed with particular alarm by the Dominican Government because it did not wish to see a possible invasion attempt from Venezuela facilitated. Mr. Daniels observed that the Ambassador was saying practically word for word the Venezuelan comment on the recent Brazilian arms shipment to the Dominican Republic. The Ambassador then said that the arms from Brazil had been arranged for at the time of the revolutionary threat from Cuba when the Dominican Government was in urgent and immediate need of means of self-defense.

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810.00/1-1748: Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics*

WASHINGTON, January 17, 1948—1 a. m.

Charges of revolutionary plotting in some countries Caribbean directed against other govts that area recently brought Dept's attention. While it is sincerely hoped there is no real basis for these apprehensions, US Govt has exercised and will continue exercise special vigilance to prevent use US territory by any revolutionary group. It is assumed, of course, that other parties to Habana Convention of 1928 on rights and duties of states in event of civil strife<sup>1</sup> are exercising similar vigilance. Dept is confident this Convention and Treaty of Reciprocal Assistance recently concluded at Rio, will effectively serve prevent any international disturbance in Caribbean area.

Should question re Caribbean situation arise in discussion with FonMin govt to which you are accredited, please convey orally foregoing info to him. Report any reaction to Dept. Sent Managua info only.

MARSHALL

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<sup>1</sup> For the convention between the United States and other American Republics, on duties and rights of states in the event of civil strife, signed at Habana, February 20, 1928, see Department of State Treaty Series No. 814 or 46 Stat. 2749.

731.39/1-2148

*Memorandum of Conversation, by Mr. Charles C. Hauch of the  
Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] January 21, 1948.

Subject: Dominican-Venezuelan-Haitian Relations; Dominican requests for planes and ships.

Participants: Ambassador Luis F. Thomen—Dominican Republic  
Mr. Daniels—Director, ARA  
Mr. Hauch—CRB

The Dominican Ambassador called by appointment to discuss general matters of interest. He presented a note (copy in translation attached <sup>1</sup>) and then outlined its contents. He stated that the Dominican Government in advising the Department of Venezuelan activities against his country had not intended to seek our good offices as a mediator in the affair, but had merely desired to inform us of events. He went on to say that nevertheless the Dominican Government while not seeking mediation would be disposed to accept mediation spontaneously offered by one or more other governments or by some qualified organ of the inter-American system. He added that it would be especially satisfying to the Dominican Government if any such mediation could obtain from the Cuban and Venezuelan Governments an official and public statement that they will not permit on their territory the formation of revolutionary expeditions against the Dominican Republic. (*Note:* In his remarks the Ambassador stated that this mediation might be through the American Government, or a combination of several governments, or through an organ of the inter-American system, whereas the note he presented referred simply to good offices or mediation by the American Government or any other government.)

Mr. Daniels stated the Dominican suggestion was an interesting one and without agreeing to the tendering of good offices or mediation by this Government indicated that he would informally sound out the Venezuelan Ambassador with regard to the Dominican proposal of an official public statement. Mr. Daniels said that the Venezuelan Ambassador might inquire whether the Dominican Government would likewise issue such a statement regarding activities on Dominican soil against Venezuela. The Ambassador said he had no instructions on this point, but would make inquiry. He said that personally he thought this might be possible. (*Note:* Despatch No. 17 of January 6 from Ciudad Trujillo <sup>1</sup> transmitted an official Dominican Foreign Office press release denying that the Dominican Government is aiding or tolerating a conspiracy against the Venezuelan Government. This was

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<sup>1</sup> Not printed.

published in the Ciudad Trujillo newspaper *La Nacion*. It is intemperate in language and would probably serve to keep the pot boiling rather than to calm it down.)

The Ambassador inferred that Haiti's participation in any revolutionary activity depended upon the existence of such activity in other countries and that by itself Haiti would not be used as a base of operations. As for Guatemala, he said that country is too far away to serve as a jumping off place for an attack on the Dominican Republic.

Mr. Daniels then informed the Ambassador of the circular telegram of January 17 sent to our diplomatic missions in the other American republics advising them regarding our intention to comply with our international obligations on revolutionary activities and expressing our confidence that other governments would do likewise.

The Ambassador stated that he had received information that Juan Bosch and a brother of President Arévalo of Guatemala had very recently arrived in Venezuela and were conferring with one another. Mr. Daniels said that we understood certain Venezuelan exiles were residing in the Dominican Republic and that several such Venezuelans upon arriving at Ciudad Trujillo had been received by General Fiallo.

The Ambassador then referred to the Dominican desire for planes and ships. He observed that Cuba had obtained warships from the United States. He added that we had, of course, indicated our willingness to license the export of certain vessels into the Dominican Republic, but that the vessels available from surplus stocks were in poor condition. . . .

. . . . .

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731.39/1-2148 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

SECRET

CARACAS, January 21, 1948—5 p. m.

46. I called on President Betancourt January 20 to invite him to a dinner in his honor and instead of brief visit the President talked for over an hour about matters interest to both governments. With respect Dominican situation President was very emphatic in denying reports originating in Dominican Republic that Juan Bosch is in Venezuela organizing an invasion against Dominican Republic. He added "we are not conspiring against Trujillo; <sup>1</sup> we are not financing anti-Trujillo movement; but if Trujillo attempts invade Venezuela we will counter with reprisals including attacks on Dominican Republic."

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<sup>1</sup> Gen. Rafael Leonidas Trujillo Molina, President, Dominican Republic.



President said his government would be pleased to receive a commission from the UN or PAU to investigate charges that Venezuela organizing against Trujillo and that commission would be free visit all military installations in all parts country. He said he was very serious about this suggestion and implied that to complete investigation commission should also visit Dominican Republic.

All reports reaching Embassy support President's statement no clandestine military movement here. It is evident however government concerned perhaps unduly over Trujillo threat including collusion with dissatisfied elements here as evidenced by reinforcement military guards around Miraflores and alertness military barracks Caracas.

Sent Department 46, repeated Ciudad Trujillo.

DONNELLY

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731.39/1-2248

*Memorandum of Conversation, by the Director of the Office of  
American Republic Affairs (Daniels)*

[WASHINGTON,] January 22, 1948.

Subject: Venezuelan-Dominican Relations

Participants: Señor Dr. M. A. Falcón-Briceno, Minister-Counselor,  
Venezuelan Embassy.

Mr. Paul C. Daniels, Director for American Republic  
Affairs.

Just prior to a meeting today at the Pan American Union, I inquired of Dr. Falcón-Briceno if he thought the Venezuelan Government would be agreeable to issuing a public statement to the effect that it was not permitting and would not permit revolutionary activity in Venezuela directed against another country. I pointed out that Ambassador Carnevali<sup>1</sup> had already assured me that this was the case, and that perhaps some useful purpose might be served if the Venezuelan Minister of Foreign Affairs were to make a public declaration along the same line. I suggested that Dr. Falcón-Briceno consult with Ambassador Carnevali and let me know their opinion.

Dr. Falcón-Briceno said he could see no objection to any such move, and said he would let me know after he had talked with his Ambassador.

I said that, of course, if the Venezuelan Foreign Minister were to make such a public declaration, it might well be that the Dominican Foreign Minister might make a similar declaration; and that in such a case the general effect might be favorable in easing the current tensions.

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<sup>1</sup> Gonzalo Carnevali, Venezuelan Ambassador in the United States.

(Note: In this connection see memorandum of conversation dated January 21, 1948, between the Dominican Ambassador and Mr. Daniels.)

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731.39/1-248

*Memorandum by the Chief of the Division of Special Inter-American Affairs (Dreier) to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] January 29, 1948.

In accordance with the suggestion in the second paragraph of your chit of January 16 to Mr. Walker of CRB,<sup>1</sup> discussions have taken place between Ambassador Dawson and Messrs. Sanders, Dreier, Walker, Hauch, Post and Monsma<sup>2</sup> concerning the possibilities of Inter-American collective action in regard to the state of friction in the Caribbean area.

There is general agreement that the situation is sufficiently serious to warrant collective action if present informal steps do not suffice, and that it would be desirable to utilize existing procedures in the Inter-American System for peaceful settlement of disputes in the present situation. Existing Inter-American peace instruments provide for good offices, mediation, investigation and report, conciliation, and arbitration.

The procedures best suited to the present Caribbean situation are those provided by the Gondra Treaty of May 3, 1923 as amplified by the General Convention of Inter-American Conciliation of January 5, 1929 and the Additional Protocol of December 26, 1933.<sup>3</sup> These procedures consist of two stages; the first of which is carried on by a permanent diplomatic commission consisting either of the three diplomatic agents longest accredited to Washington or the three longest accredited to Montevideo. The Permanent Diplomatic Commission has the "post office function" of receiving the request for convocation of the Commission of Investigation and Conciliation, and notifying the other party thereof. It also has interim conciliatory functions either on its own motion when it appears that there is a prospect of disturbance of peaceful relations, or at the request of a party to the dispute. The second stage is a full-dress investigation and conciliation

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<sup>1</sup> See footnote 5, despatch 6, January 2, 1948, p. 155.

<sup>2</sup> William Sanders, Associate Chief, Division of International Organization Affairs; Richard H. Post, of the Division of North and West Coast Affairs; George N. Monsma, Acting Assistant Chief, Division of Special Inter-American Affairs.

<sup>3</sup> Department of State Treaty Series No. 752, or 44 Stat. 2527 on conflicts between American states; TS No. 780, or 56 Stat. 2209; and TS No. 887, or 49 Stat. 3185, respectively.

by the Commission of Investigation and Conciliation appointed by the parties to the dispute.

If the Gondra machinery were invoked in the case of the Caribbean situation, an adjustment could probably be effected at the first stage, as it is believed that neither party would welcome a full-dress investigation which might prove embarrassing to both countries. The Permanent Diplomatic Commission in Washington at the present time would be composed of the Ambassadors of Uruguay, Honduras, and Costa Rica, which would not be a particularly strong committee. The staff of the Pan American Union would probably act as the Secretariat which would be of considerable assistance to the Commission.

As to the tactics for setting the Gondra machinery in motion you might find it possible to discuss this with the Venezuelan Ambassador. In this connection, Dr. Lleras Camargo<sup>4</sup> could probably be of some assistance, since he is an intimate personal friend of long-standing of the Venezuelan Ambassador. If the Venezuelan government should agree to take the initiative in invoking the Gondra machinery, it might be desirable to inform the Dominican Republic of the Venezuelan government's intention to do so, so that the Dominicans could simultaneously request that the machinery be set in motion and thereby avoid any impression that one country was bringing the other to court.

An approach to the Venezuelans in the first instance would seem to be desirable since the Dominican Republic seems reluctant to take the initiative, but has indicated it would submit to Inter-American procedures if initiated by someone else. The Venezuelans might well be receptive to such a suggestion since President Betancourt recently stated that his government would be pleased to receive a UN or PAU commission of investigation.

You may wish to discuss this subject informally again with Dr. Lleras.

JOHN C. DREIER

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<sup>4</sup> Alberto Lleras Camargo, Secretary General of the OAS.

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731.39/2-248: Circular airgram

*The Secretary of State to Certain Consular Officers*<sup>1</sup>

SECRET

WASHINGTON, February 2, 1948—8:55 a. m.

Recurrent tension between the Governments of Venezuela and the Dominican Republic which dates from the Venezuelan revolution of October 1945 is again on the increase. Each Government has made con-

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<sup>1</sup> Sent to the consular officers at Antigua, Aruba, Barbados, Belize, Curaçao, Georgetown, Grenada, Kingston, Martinique, Paramaribo, and Port-of-Spain.



fidential communications to the Department also press statements alleging hostile intentions and preparations for aggression by the other Government. Each has cited recent arms acquisitions of the other, alleged to be in excess of normal defense requirements. Both Governments are believed to be genuinely afraid of aggression in the near future but have no definite idea of the form it might take. The Venezuelan Government fears that assistance might be sent from abroad to a revolution which it believes is being prepared within the country, indications of which have been made in several reports from Embassy Caracas. The Dominican Republic fears attack in a form similar to that of the abortive expedition last summer from Cayo Confites, Cuba.<sup>2</sup> Other foreign countries have been named as possible bases by one Government or the other, including Haiti, Colombia and Guatemala. Our missions in these countries have been advised of these rumors but so far have reported nothing of note.

You are requested to report any information which may come to your attention pertaining to this situation, including the activities of "exiles" from any of the Caribbean countries within your district; all extraordinary visits of their vessels or airplanes; and references to this subject by persons in your district. . . .

MARSHALL

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<sup>2</sup> For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 643 ff.

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839.00/2-548

*Memorandum of Conversation, by Mr. Charles C. Hauch of the Division of Caribbean Affairs*

[Extract]

CONFIDENTIAL

[WASHINGTON,] February 5, 1948.

Participants: Ambassador Luis F. Thomen—Dominican Republic  
Mr. Daniels—Director, ARA  
Mr. Hauch—CRB

The Dominican Ambassador called at his request to discuss further the alleged revolutionary activities against his country. He mentioned the following points:

. . . . .

In the course of the conversation, Mr. Daniels also referred to a newspaper clipping from the *New York Herald Tribune* of January 26 quoting the Dominican Information Center in New York as announc-

ing that President Trujillo was planning to bring evidence of the alleged present anti-Dominican revolutionary plot to the attention of the signatories of the Rio treaty and that if they fail to act the matter would be referred to the United Nations Security Council. Mr. Daniels inquired whether this meant the Dominican Government had changed its view on assuming the initiative in taking the matter up through established machinery and procedures. The Ambassador said that it did not. He added that the Dominican Information Center exists for the primary purpose of promoting tourism and general information on the Dominican Republic, but that sometimes it went beyond these functions.

Mr. Daniels stated it was his understanding that the Venezuelan Government had sent to the Director General of the Pan American Union a copy of the communication it had addressed to the Government of Nicaragua with respect to alleged anti-Venezuelan activities in that country. Although this copy had been sent the Director General informally with no request for action, Mr. Daniels thought that it might ultimately develop into a method of getting the whole question of the Caribbean revolutionary activities before the Pan American Union, should this possibility be followed up. The Ambassador apparently had little information on the receipt by the Director General of the communication under reference.

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839.113/3-348

*Memorandum of Conversation, by Mr. Charles C. Hauch of the  
Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] March 3, 1948.

Subject: Dominican arms requests; international tension in the Caribbean

Participants: Ambassador Luis F. Thomen—Dominican Republic  
Mr. Daniels—Director, ARA  
Mr. Walker—CRB  
Mr. Hauch—CRB

The Ambassador called at Mr. Daniels' request to review the current situation on the above-mentioned subjects. Mr. Daniels inquired as to the Ambassador's impression of the general situation in the Caribbean. The Ambassador agreed that the situation had calmed down some. He said that other governments in the area appeared less bellicose than heretofore. Mr. Daniels referred to the statement of Venezuelan President Gallegos on February 15 to the effect that the Venezuelan Government does not participate in any attempt to disturb public order in

other countries. Mr. Daniels felt this set a very good example and inquired whether perhaps the Dominican Government might not likewise make such a statement with respect to its activities. The Ambassador was noncommittal on this point, but stated he would pass Mr. Daniels' remarks on to his Government.

731.39/3-1548

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

No. 229

CARACAS, March 15, 1948.

SIR: I have the honor to refer to the Department's Transmittal Slip of January 14, 1948 requesting this Embassy's comments on a note dated January 8, 1948, from the Dominican Ambassador at Washington concerning certain alleged acts of the Venezuelan Government.

The third general charge that the note makes is that the controversy is the result of a struggle between democracy represented by the Dominican Republic and Communism represented by Venezuela and its co-conspirators.

It is correct that the polemic is due, in part, to a difference in ideology. Because of the ideological and domestic political considerations, the issue does not at this time easily lend itself to settlement by good offices, conciliation or arbitration; that is to say, it is not an issue, such as a boundary or claims dispute, which is capable of exact settlement on a basis more or less satisfactory to both parties. Certainly no word has come to my hand that either the Venezuelan or Dominican Governments wish an effort to be made to remove the real causes for the mutual distrust which exists.

I have, therefore, come to the conclusion that, for the time being, the most practical approach to the problem is through inter-American investigation. As I have already reported, Mr. Betancourt, when he was Junta President, said to me that he would welcome a complete investigation conducted by the Pan American Union or the United Nations.

While the failure of the recent Nicaraguan expedition <sup>1</sup> may signify the end of these unfortunate and dangerous adventures, it is possible that other attempts will be made directly or indirectly to aid revolutionary exiles to bring about a state of civil war. My present thought is that if this danger should reappear, serious consideration should be given to the feasibility of obtaining the consent of the parties in in-

<sup>1</sup> For documentation on this subject, see pp. 488 ff.



terest, and of the Governing Board of the Pan American Union, to an investigation by the latter of the charges which are made. If this consent could be obtained and a thorough, on-the-spot investigation conducted with promptness and vigor, much might be accomplished toward not only discouraging irresponsible allegations but frustrating any expeditions that might be found to exist.

Meanwhile, I am in entire agreement with the Department's policy of preventing the exportation from the United States of arms and munitions which might be used by exile groups or by the Dominican or Nicaraguan Governments to cause trouble here.

Respectfully yours,

For the Ambassador:  
THOMAS C. MANN  
Second Secretary

810.00/5-1248: Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics*

SECRET

WASHINGTON, May 12, 1948—5 a. m.

Following cirtel today's date sent all Central American and Caribbean missions repeated all other American Republics for info:

"Continued reports revolutionary plotting certain countries Caribbean directed against other Govts that area causing renewed and serious concern Dept (see cirtel Jan 17).

"You should bring this situation again attention Govt to which accredited emphasizing view of US Govt scrupulous observance non-intervention commitments essential continued peace this hemisphere. You should endeavor obtain expression whether Govt is prepared to take or is taking necessary steps this end. You may state your colleagues in all other Central American and Caribbean countries, instructed take identical action."

MARSHALL

813.00/5-2748

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] May 27, 1948.

In the course of a conversation this afternoon, Ambassador Esquivel<sup>1</sup> referred to the need for closer cooperation between the Central American republics. He apparently had in mind particularly the desirability of the Central American nations being able to speak as one

<sup>1</sup> Mario A. Esquivel, Costa Rican Ambassador.

unit in foreign affairs. In this connection, he said that the greatest handicap was the Somoza dictatorship in Nicaragua.<sup>2</sup> While he also referred to Carías,<sup>3</sup> he apparently was primarily concerned with Somoza. He said that he had in mind that Central America should act as a unit in matters of defense, and that it should make whatever defense bases might be necessary available to the United States. He indicated that Panama ought to be brought into the picture on the same grounds as any of the other Central American republics.

The Ambassador was informed that the United States policy toward a Central American Union was neither to favor or discourage such an organization, and that we considered this matter entirely for decision by the countries concerned. To this the Ambassador replied that he did not have in mind a Central American union, but rather some sort of federation. The Ambassador said that before such a federation could be evolved it was necessary to eliminate Somoza. I pointed out to the Ambassador our concern over the revolutionary activities of various groups in Central America, but restricted my comment to those groups who were working in exile to overthrow the governments of neighboring countries, and the failure of certain of the Central American countries to take effective means to prevent their territory from being used for such purposes. I referred to the Habana Convention<sup>4</sup> and various other international agreements to which we were parties, and expressed the hope that the Costa Rican Government would not intervene in the affairs of its neighbors. The Ambassador said that Costa Rica had no intention of intervening in Nicaragua. All it was doing was permitting Nicaraguans in Costa Rica to do what they wished. . . . I told him that in my opinion there was a definite obligation on the part of all of us to discourage the activities of any groups within our countries which were plotting the overthrow of neighboring governments. I said that such action was necessary if we were to maintain peace in Central America and in the hemisphere. In this connection, I referred to the action taken by our Government during the period of the recent Costa Rican civil war.<sup>5</sup> The Ambassador stated that he was in accord, but pointed out that there was a very great difference between the invasion of Costa Rica by Nicaraguans, and a similar invasion of Nicaragua by its own citizens from abroad. I agreed that there was a definite distinction, but at the same time pointed out that we all had binding obligations nonetheless.

<sup>2</sup> Anastasio Somoza. President of Nicaragua. For documentation on the political situation in Nicaragua, see pp. 99 ff.

<sup>3</sup> Tiburcio Carías Andino, President of Honduras.

<sup>4</sup> Convention between the United States and other American Republics on duties and rights of states in the event of civil strife, signed at Habana, February 20, 1928 (Treaty Series 814, or 46 Stat. 2749).

<sup>5</sup> For documentation on this subject, see pp. 488 ff.

815.00/6-1848 : Telegram

*The Ambassador in Honduras (Bursley) to the Secretary of State*

CONFIDENTIAL

TEGUCIGALPA, June 18, 1948—5 p. m.

73. Note from Foreign Minister today with supporting memo says public alarmed and Government concerned result insistent reports of alteration public order and peace Honduras through armed uprisings in interior combined with intervention other governments seeking overthrow Honduran Government by force of arms. States Honduras has complied strictly inter-American pacts, neutrality, non-intervention and intends continue do so. Through Embassy, requests US Government interpose valuable influence so the said pacts be observed by all signatory governments. Foreign Minister does not mention any country by name.

. . . . .  
Repeated Central American Missions.

BURSLEY

731.39/6-1948 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

CONFIDENTIAL

CARACAS, June 19, 1948—5 p. m.

474. Foreign Minister informed me today he will publicly deny next week that Venezuelan Government helping Haiti obtain armaments (Embtel 469 June 16<sup>1</sup>) but it reserves right do so view Brazil's decision sell armaments Dominican Republic despite Venezuela's protest. He repeated his government not giving material aid to friendly Haiti but in light Trujillo's accusations his government feels compelled issue clear-cut statement its position and reaffirm its opposition to Trujillo and others who are fomenting trouble in Caribbean area. Although Venezuelans divided politically they are practically united in their stand against Trujillo. Unless Trujillo desists from attacks on Venezuela trouble may result.

Sent Department 474, repeated Ciudad Trujillo, Port-au-Prince.

DONNELLY

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<sup>1</sup> Not printed.



810.00/6-2348 : Airgram

*The Secretary of State to the Embassy in Venezuela*

WASHINGTON, June 23, 1948.

A-224. Reference last paragraph your airgram A-431 of May 25, 1948<sup>1</sup> concerning possible investigation by the Pan American Union of the Caribbean situation.

In discussions of the proposed articles concerning peaceful settlement for the Organic Pact in committees of the Governing Board of the Pan American Union prior to the Bogotá Conference, the Department found great reluctance on the part of the other American republics to include provisions giving the Organ of Consultation (i.e. Governing Board or meeting of Foreign Ministers) authority to investigate disputes, although they were willing to have the Organ of Consultation perform certain other peaceful settlement functions. The Bogotá Conference did not give the Organ of Consultation even the peaceful settlement powers recommended by the Governing Board. Consequently, the Department feels the Council (Governing Board) would be reluctant to attempt peaceful settlement efforts at this time.

Although a new treaty on peaceful settlement, the Pact of Bogotá, was signed at Bogotá, this does not come into force until the parties deposit their ratifications. Consequently, existing inter-American peace machinery as described in ARA intra-office memoranda of January 14 and 29, 1948,<sup>2</sup> copies of which were sent to the Embassy under transmittal slips of January 16 and February 2 respectively, is still in force. Any of the parties to the controversy could, if they wish, invoke this peace machinery.

Prior to the Bogotá Conference, the Department on appropriate occasions did suggest informally to the Dominican and Venezuelan Ambassadors separately, the possibility of invoking inter-American peace machinery.

The Department would welcome the initiative of any of the parties directly concerned to bring into operation the existing inter-American peace machinery as a possible means of easing the strained relations in the Caribbean area.

MARSHALL

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<sup>1</sup> Not printed.

<sup>2</sup> Memorandum of January 14, not printed; memorandum of January 29 is printed on p. 162.

810.00/6-3048 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

SECRET

CARACAS, June 30, 1948—4 p. m.

511. President Gallegos told me last night (reDepgam 224, June 23) he is willing discuss Caribbean situation during visit Washington and indicated his government would not be averse requesting operation inter-American peace machinery provided, of course, it includes Dominican Republic. President again stated Venezuela not sending and does not intend send armaments Haiti but that it has right do so saying that precedent existed because Brazil recently shipped armaments to Dominican Republic.

DONNELLY

810.00/7-948

*Memorandum of Conversation, by the Chargé in the Dominican Republic (Burrows) <sup>1</sup>*

CONFIDENTIAL

CIUDAD TRUJILLO, July 9, 1948.

As I was about to leave the Secretary's <sup>2</sup> office this morning he mentioned a subject about which he had obviously been thinking the whole time I had been there but which he had apparently hesitated to introduce. He said that his government had been thinking seriously of the possibility of requesting some Inter-American organization or other to investigate the situation in the Caribbean with the idea of securing action or commitments from all of the Caribbean nations involved to maintain the peace. He said that his country has experienced a long period now of revolutionary and war threats and he feels that some kind of solution must be found; he said that his country wants only to live at peace with the world. He said that his country's expenditures for ships, armaments, etc., in recent months had been completely out of balance with the nation's economy and that some means must be found to obviate the necessity for any further such exaggerated expenditures.

The Secretary said that instructions had been sent to Ambassador Thomén to investigate the possibility of the Inter-American "Committee of Five" becoming interested in the Caribbean situation. The Secretary described this Committee as a five-man board consisting of representatives of the United States, Cuba, Mexico, Brazil and Argentina. He said that the United States representative is the Honor-

<sup>1</sup> Copy transmitted to the Department by the Chargé in his despatch 437, July 9, 1948.

<sup>2</sup> Dominican Secretary of State for Foreign Affairs, Virgilio Díaz Ordóñez.

able William Dawson; the Cuban Guillermo Belt; and that the others have not named their representatives. I took this to mean "The Committee of Five".

I suggested to the Secretary that I had received a few days ago a study prepared in the Department of State with reference to existing Inter-American peace instruments that might be of some use in attempting to ease political conditions in the Caribbean area and that I would be very happy to make a resumé of this report available to him. The Secretary said that he would be very interested. I agreed that I would seek an interview with him again on next Monday or Tuesday at which time we could discuss the matter on the basis of the report which I would bring along.

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710.001/7-948

*Memorandum by the United States Representative, Governing Board,  
Pan American Union (Dawson) to the Director of the Office of  
American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] July 9, 1948.

Subject: Dominican Concern Over Alleged Threats: Indications  
That Dominican Government Again Contemplates Recourse to  
Committee of Five

While waiting for a committee meeting at the PAU this morning, I had a conversation with Lleras and Quintanilla <sup>1</sup> which is of interest in connection with recent evidences of concern on the part of the Dominican Government.

Quintanilla remarked that yesterday afternoon the Mexican Foreign Office had telephoned him to inquire as to any new developments with respect to the setting up of the Committee of Five provided for in Resolution XIV of the Habana Consultative Meeting. It will be recalled that steps looking towards the calling into being of this Committee were taken last summer by the Dominican Government <sup>2</sup> which then failed to pursue the matter.

Quintanilla infers that yesterday's telephone call from Mexico City is the result of some conversation had with the Mexican Foreign Office by the Dominican representative there.

Lleras told us that the Dominican Representative on the COAS (Salazar) had called on him yesterday and had requested that the Committee be set up. Lleras was under the impression that the Domini-

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<sup>1</sup> Luis Quintanilla, Mexican Ambassador in the United States; Mexican Representative on the Governing Board of the Pan American Union.

<sup>2</sup> See memorandum of conversation of September 15, 1947 of Assistant Secretary Armour with the Dominican Ambassador Ortega Frier, in *Foreign Relations*, 1947, vol. VIII, p. 654.



cans once again want the Committee of Five brought into being and into action in order to lay their case before it. Quintanilla said however that in a talk with Salazar he (Quintanilla) had cautioned against bringing charges without possessing "proofs" and that from Salazar's remarks he had the impression that, while the Dominicans do want the Committee of Five set up, they have not yet definitely decided to take their case before it.

Lleras indicated that in the circumstances before taking any further steps he will talk again with Salazar in order to ascertain whether the Dominican request to him involves merely the "constitution" of the Committee of Five or its setting up for a specific purpose. The Committee of Five would include representatives of Argentina, Brazil, Cuba, Mexico, and the U.S. The procedure contemplated last summer and which would, I presume, be followed now would be for Lleras to request the five Governments concerned to designate their representatives.

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839.00/7-2648 : Telegram

*The Chargé in Haiti (McBride) to the Secretary of State*

CONFIDENTIAL

PORT-AU-PRINCE, July 26, 1948—11 a. m.

187. Foreign Minister<sup>1</sup> showed me this morning copy of note received by Ambassador Price Mars in Ciudad Trujillo from Dominican Foreign Minister dated July 10 directly accusing Haiti of plotting against Trujillo Government. He also showed me copy of Price Mars' preliminary reply.

Dominican note first reiterated allegations Haitian Government had been implicated in last summer's abortive Cayo Confites expedition, quoting articles written by supposed revolutionary, later considered Trujillo agent, in San Juan newspaper (see Embassy's despatches 31, January 26, and 64, February 14<sup>2</sup>). Note then made three following specific accusations:

1. That group of Cubans, Guatemalans, Venezuelans, and Dominican exiles was plotting in Haiti against Dominican Government.

2. Large stock of arms for use against Trujillo regime is hidden in Haiti.

3. Group mentioned as No. 1 above is in touch with similar organization in Puerto Cabello, Venezuela, with connivance of Haitian Government.

Price Mars reply examined three Dominican charges carefully and in each case requested Dominicans supply any available specific infor-

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<sup>1</sup> Edmé T. Manigat.

<sup>2</sup> Neither printed.

mation that would assist Haitian Government in stamping out any undercover activities of this nature in Haiti or in seizing any illicit arms.

Foreign Minister Manigat requested aforementioned be conveyed to Department with his renewed assurances charges were preposterous. He stated he felt purpose of all this camouflage was to seek to undermine confidence in Haitian Government. He asserted if any large-scale concentration of arms or revolutionaries existed in Haiti, it would rapidly become public knowledge, declaration with which I am apt to agree. Finally, he indicated Haitian Government was so anxious to expend its energies on its domestic program that it was becoming increasingly bored with time spent denying Dominican allegations.

Sent Department 187; repeated Ciudad Trujillo, Caracas, and Habana.

McBRIDE

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737.39/8-248

*Memorandum of Conversation, by the Chargé in the Dominican Republic (Burrows)<sup>1</sup>*

CONFIDENTIAL

CIUDAD TRUJILLO, August 1, 1948.

Figueroa<sup>2</sup> said that he had had a conversation with the Foreign Minister two or three days ago lasting two hours, in the course of which the Minister had handed him a note or memorandum indicating that the Dominican Government intends to appeal to some Pan American Committee or Commission for the investigation of Dominican charges and claims against Cuba arising from the Cayo Confites attempt. The claim, as Figueroa understands it, is for five million dollars cash. Figueroa understands further that Ambassadors Despradel and Ortega Frier together with Minister Rodríguez are leaving for Washington immediately to press this matter. He also is under the definite impression that Ortega Frier is the moving spirit in the entire matter and that it is on the basis of his studies and recommendations that the attempt is to be made to present the claim through an inter-American Commission of some kind, presumably the "Committee of Five".

Figueroa said that he had endeavored to convince the Foreign Minister that he should delay the departure of these three representatives for at least a few days and attempt during that time to arrange some bilateral discussion or investigation of the present Dominican claims

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<sup>1</sup> Copy transmitted to the Department by the Chargé in his despatch 473, August 2, 1948.

<sup>2</sup> Miguel Figueroa, Cuban Chargé in the Dominican Republic.

against Cuba. He told the Secretary that he feels sure his own Foreign Minister or even President would be quite happy to discuss this matter with a Dominican emissary or if the Dominicans prefer, a Cuban Committee of three or four could be named to meet with a similar Dominican Committee of three or four for discussion and possible negotiation. Figueroa said the Secretary agreed that that would undoubtedly be a good idea but Figueroa has not the slightest hope of anything like that developing; as a matter of fact he is under the impression that the three Dominicans have already left for Washington. (Figueroa apparently has the same idea that I have with regard to the Secretary's good will but unfortunate ineffectualness; he even said that during the course of his two hour audience the Secretary stated that the President does not trust him). Figueroa is convinced that any such move as the Dominicans are presently planning will not improve matters but instead will probably lead only to more embittered feeling as far as Cuba is concerned. He said that fifteen days ago he felt his country was more inclined to an improvement of relations with the Dominican Republic than it had been for many months; he is certain that if the Dominican Republic brings "an accusation" such as this before some inter-American organization the result as far as Cuba is concerned will be only resentment and anger. He said that up until now his country has not "officially" (so far as the Cuban populace is concerned) sympathized with the Dominican revolutionists; after a public accusation of this kind, however, he feels that most of his compatriots will be quite happy to support openly the Dominican revolutionists or even to engage in open warfare with the Dominican Republic.

I suggested that it might be better to air all of the claims and counter-claims in this entire affair and that in the process of doing so a lot of passion might be expended and tempers improved. Figueroa disagreed completely, saying that the Dominican Republic expects only to discuss the matter of Cayo Confites and none of the more recent rumors and charges that have been going around the Caribbean. I said that the Dominican Republic might have difficulty in restricting any discussion to the subject of Cayo Confites and that once the "Forum" is open there may be a thorough discussion of certain other charges both for and against the Dominican Republic. Figueroa agreed that this was undoubtedly true and said he feels very sure as soon as discussion of Cayo Confites is begun, Venezuela, Guatemala, Costa Rica and other countries are going to insist on speaking their part. I was not able, however, entirely to convince him that such open discussion would serve any constructive purpose.

Figueroa said that he is convinced that the three Dominican Representatives will endeavor immediately to replace the Cuban on the "Committee of Five" saying that the Committee should not include



a representative of either of the interested parties in the conflict. He is convinced that they will endeavor to replace Guillermo Belt, the Cuban member, by a Brazilian, Argentine, Uruguayan or Peruvian. He pointed out that Despradel has just recently spent several months visiting those four countries and he is satisfied now that the reason for this visit was to line up those four governments on the side of the Dominican Republic and against Cuba.

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810.00/8-248

*The Chargé in the Dominican Republic (Burrows) to the Secretary of State*

CONFIDENTIAL  
No. 471

CIUDAD TRUJILLO, August 2, 1948.

SIR: I have the honor to refer to the Embassy's Airgram no. 193, July 20, 1948<sup>1</sup> referring to the fact that I had given the Foreign Minister in an informal manner a synthesis of a study prepared in the Department of State with reference to procedures available for conciliation within the inter-American system and to enclose herewith a copy and translation of a study prepared in the Dominican Foreign Office entitled "Motives and Object of Granting Authority to the Permanent Peace Commission". The Foreign Minister handed me this study on the same informal basis that I had given him my memorandum some three weeks ago; he referred in terms of appreciation to the aid which the memorandum had been in the study of this question within the foreign office.

The Foreign Minister said that his Government had given this matter very considerable and detailed attention and that it is now prepared to press for a consideration of the "Caribbean question" by the "Permanent Peace Commission" which both he and I took to mean the "Committee of Five". He said that very careful consideration had been given the point of view that the Gondra Treaty offered a more promising avenue of approach to the matter but he said again (see the Embassy's Airgram no. 193) that the Dominican Government feels it would be better to present the matter for consideration in a more informal manner than that provided under the Gondra Treaty. When I asked with regard to the object of the trip being made to the United States by Ambassadors Arturo Despradel and José Ortega Frier, together with Minister José Ramón Rodríguez, he said that they "might"

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<sup>1</sup> Not printed.

be travelling in connection with this same matter of conciliation within the Caribbean (see the Embassy's telegram no. 234, July 29, 1948).<sup>2</sup>

It will be noted that this informal exposition of the Dominican Republic's position with regard to the Permanent Peace Commission speaks only of misunderstandings between the Dominican and Cuban Governments and more specifically of "Dominican claims" resulting from Cayo Confites; there is no indication that the Dominican Republic anticipates any widening of the subject to include anything else in the way of Caribbean conflicts. In this connection a memorandum of conversation with Cuban Chargé Miguel Figueroa, which is being forwarded under separate cover (Despatch no. 473, August 2, 1948)<sup>3</sup> will be of interest to the Department.

Respectfully yours,

CHARLES R. BURROWS

<sup>2</sup> Not printed.

<sup>3</sup> See memorandum of conversation, August 1, *supra*.

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710.00/8-248

*Memorandum by the Director of the Office of American Republic Affairs (Daniels)*

[WASHINGTON,] August 2, 1948.

On Saturday morning, July 31, 11 a. m., the "Committee of Five", established by Resolution XIV of the Havana Consultative Meeting of Foreign Ministers of 1940, held its first meeting in the office of the Secretary General of the OAS at the Pan American Union. The following persons were present:

Mexico—Ambassador Quintanilla  
Brazil—Ambassador Bello  
Argentina—Ambassador Corominas  
United States—Ambassador Daniels.

The Cuban member was absent.

Ambassador Lavalley, Chairman of the COAS, was present to install the Committee and presided at the outset of the meeting.

Dr. Lleras, Secretary General of the OAS, was present but did not participate in the debates.

Dr. Manger, Assistant Secretary General, was present and acted as Secretary of the Committee.

Three mimeographed documents (copies attached) were distributed to the members of the Committee, as follows:

- 1) Resolution XIV of the Havana meeting recommending the creation of the Committee.
- 2) Report of the Special Committee of the Governing Board of the Pan American Union to study Resolution XIV.
- 3) Extract from minutes of meeting of Governing Board of December 4, 1940, setting forth reservation of Venezuela and abstention of Chile in regard to creation of Committee.

After a lengthy discussion it was generally agreed that it would be desirable for the Chairman of the COAS (Dr. Lavalley at present) to act as Chairman of the Committee of Five, even though he not be considered a member of the Committee and have no vote. In the event the Chairman of the COAS should likewise happen to be a member of the Committee of Five, then the Vice Chairman of the COAS would preside in the same conditions. If both the Chairman and the Vice Chairman happen to be members of the Committee, then the eldest ranking member of the COAS would preside in the same conditions. Ambassador Quintanilla undertook to draw up some regulations covering this point for approval by the members.

Ambassador Daniels raised two questions :

- 1) Could or should the Committee take the initiative in studying a conflict between two or more American States, or must any such study be the result of the problem having been presented to the Committee by one or more of the interested parties?
- 2) Does the Committee have the power to investigate facts? Or must it rely solely on information sent to it, but without direct investigation on its own part?

The first question gave rise to an extended debate in the course of which Dr. Manger read letters from representatives of some of the countries at the time the Committee was created, indicating that those countries had made reservations regarding the power of the Committee to intervene in disputes unless requested by those countries. There seemed to be general agreement with the suggestion of Ambassador Corominas that the Committee "should not go looking for disputes". It did not seem clear to me, however, that the point was either clearly defined or definitely settled.

There was no discussion as to whether or not the Committee had the right and power to investigate directly the facts bearing on a given conflict.

Dr. Manger was requested by Ambassador Quintanilla to draw up a report of the meeting and said he would do so.

There was no discussion whatsoever of any existing disputes or conflicts between any of the American States at this meeting; and no mention was made of the Dominican initiative and the recently created Dominican committee.

No date was fixed for the next meeting of the Committee.



839.00/8-648

*Memorandum of Conversation, by the Director of the Office of American Republic Affairs (Daniels)*

[WASHINGTON,] August 6, 1948.

## Participants:

Ambassador Thomen, of Dominican Republic	
Ambassador Salazar, Dominican Representative on COAS	
Ambassador Ortega Frier	
Ambassador Arturo Despradel	Members of Dominican Mission
Señor Rodríguez	to consult with "Committee
Mr. Daniels of ARA	of Five"
Mr. Dreier of IA	

The Dominican Mission listed above, accompanied by Ambassadors Thomen and Salazar, called on me at my office by appointment on August 5 at 11:30 AM. Ortega Frier and Despradel expounded at some length the Dominican position, stressing particularly their fears and suspicions in regard to the policy of the Cuban Government. They pointed out that the revolutionary attempt against the Dominican Republic could hardly be considered in the nature of a "revolution" in view of the fact that the great majority of participants—both in the Cayo Confites expedition last year, and the conspiracies now under way—were foreigners and not Dominicans. There was much other talk of the alleged conspiratorial movement against the Dominican Government along the line of previous reports from Ciudad Trujillo and the Dominican Embassy.

I expressed the position of the U.S. in this matter as follows:

1) Our policy is to adhere to the various Inter-American commitments in regard to non-intervention in the internal or external affairs of other countries, and to the Habana Treaty of 1928 intended to prevent revolutionary activity in one country directed against the government of another country, and that we had made this policy known in more than one Circular Instruction to our Missions in the American republics.

2) That we favored the utilization of inter-American machinery for the peaceful settlement of disputes and for alleviating such situations of tension as now existed in the Caribbean area.

3) That we would cooperate actively with the "Committee of Five" established by the Habana Consultative Meeting of 1940 and that, in fact, I had attended its first meeting last Saturday, July 31 at the Pan American Union.

4) That I was uncertain of the procedure the Committee would follow, but that in that regard I assumed the Dominicans would be in touch with Dr. Lleras, Secretary-General of the OAS and Dr. Lavalle, Chairman of the COAS.

The Dominicans appeared satisfied with the foregoing statements, and departed without any specific arrangements being made for fur-

ther conversations with them, but with the understanding that it would [be] mutually convenient for us to exchange views and impressions from time to time.

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819.00/8-948

*Memorandum of Conversation, by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)*

CONFIDENTIAL

[WASHINGTON,] August 9, 1948.

Participants: Ambassador Octavio Vallarino of Panama  
Mr. Daniels—ARA  
Mr. Wise—CPA  
Mr. Bennett <sup>1</sup>—CPA

The Panamanian Ambassador called on Mr. Daniels by appointment. He said he had been instructed to do so by President Jimenez and to place before the Department the serious apprehension which Panama felt over information that Arnulfo Arias <sup>2</sup> with the aid of the Costa Rican Government was contemplating an attack on Panama via Puerto Armuelles. The Ambassador referred to his Sunday afternoon conversations with Mr. Wise and said that he wished to lay emphasis on Panama's need for effective help in this situation. He said that President Jimenez had talked to Somoza of Nicaragua who had promised to aid Panama by moving into Costa Rica should that country invade Panama. The Ambassador said that such plans, if carried into effect, undoubtedly could lead to a general Central American conflagration. The Ambassador added that President Jimenez viewed the situation so seriously that Panama had given instructions to its delegates at the UN to present the matter to the Security Council.

Mr. Daniels told Ambassador Vallarino that he appreciated the frankness with which Panama had come to the United States on this matter. Mr. Daniels said that during recent weeks he had had several conversations with the Costa Rican Ambassador and had very definitely gained the impression that Costa Rica was interested primarily in local politics and economic problems and that intervention in the internal affairs of other countries was not of interest to Figueres <sup>3</sup> and his administration. Mr. Daniels said that the Costa Rican Ambassador had stated this position so clearly and categorically that he found it very hard to believe reports that the Costa Rican Government would be aiding Arnulfo Arias to prepare an attack on Pan-

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<sup>1</sup> William Tapley Bennett, Jr., Division of Central America and Panama Affairs.

<sup>2</sup> Former President of Panama.

<sup>3</sup> José Figueres Ferrer, President of the Founding Junta of the Second Republic, Costa Rica.

ama. Mr. Daniels added that at one time the Department had some fear lest the Costa Rican Government might be inclined to support the so-called Caribbean brigade which had as its objective the overthrow of Somoza, Carias and eventually Trujillo. However, Mr. Daniels said that in his opinion time had proved that if Costa Rica ever had any such interest in the Caribbean brigade it had now abandoned it. Mr. Daniels then referred to repeated rumors which had come to the Department of revolutionary proposals in practically all of the Central American republics, and that the continuation of these reports and continued speculation on possible military action only tended to keep the situation tense and in a state not salutary to the best interests of Central America or of the hemisphere. Mr. Daniels more than once reiterated his strong belief that the Costa Rican Government would not satisfy the requests of Arnulfo Arias for military assistance in any attack on Panama.

The Panamanian Ambassador said he hoped that what Mr. Daniels said was true, that it well might be, but that Panama was informed to the contrary and hoped that the United States could make appropriate representations to Figueres and Somoza. The Ambassador quoted President Jimenez as saying that preventative action was all up to the United States which undeniably had the power to prevent the trouble which was reportedly arising.

The Panamanian Ambassador showed a very friendly and courteous attitude throughout the entire conversation, at one point asked Mr. Daniels if the United States was not obliged by the 1936 Treaty <sup>4</sup> to come to the defense of Panama and if so, just what the United States would propose to do in case Costa Rica invaded Panamanian territory and move forward to the extent of threatening the Canal. Without waiting for his question to be answered, however, the Ambassador asked Mr. Daniels just what the Department would suggest as appropriate action for Panama to take. Mr. Daniels replied that he thought the first move of importance was to find out directly from the Costa Rican Government what its intentions were. The Panamanian Ambassador said that this could be done but that Costa Rica might say one thing while being in the process of doing another. Mr. Daniels said that this, of course, would present a great problem and would require the very serious consideration of the United States and other countries neighboring Costa Rica. Mr. Daniels said that in view of the assurances of Costa Rica's peaceful intentions he believed we should accept them at face value until the activities of the Costa Rican Government were proved otherwise.

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<sup>4</sup>For general treaty of friendship and cooperation between the United States and Panama, signed March 2, 1936, see Department of State Treaty Series No. 945, or 53 Stat. 1807.



The Ambassador said that the attitude of Mr. Daniels had been helpful and somewhat encouraging and then inquired whether Mr. Daniels would recommend countermanding the instructions which had been given to the Panamanian delegates at the United Nations. Mr. Daniels didn't want to be placed in a position of making any recommendation in this respect to the Panamanian Government, but he did indicate that in his opinion any presentation of the Panamanian case to the Security Council at this time would be premature.

The Ambassador appeared very grateful for the interview and said that he would call the President of Panama immediately to report on the conversation. He added that he would keep in close touch with the Department and report any developments which came to his attention. The Departmental officers assured the Ambassador that he should feel free to call or come in at any time.<sup>5</sup>

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<sup>5</sup>In a memorandum of August 10, not printed, Mr. Wise noted that the Panamanian Ambassador had telephoned at 11:00 that morning to say that the Costa Rican Ambassador had called on him by appointment and given Panama every assurance that the Costa Rican Government had only the most friendly intentions toward Panama and would do everything possible to prevent within its territory the organization of any movement of aggression on Panama; the Panamanian Ambassador was satisfied with this development (718.19/8-1048).

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839.00/8-1248: Telegram

*The Secretary of State to the Embassy in Cuba*

CONFIDENTIAL

WASHINGTON, August 13, 1948.

609. From Daniels. "Committee of Five" has met twice (urtel 593, Aug 12<sup>1</sup>) but has not yet discussed or even received Dominican allegations regarding Cuba. Following formulation and approval Committee's regulations possibly today, Committee will probably receive visit of Dominican mission now in Washington for this purpose. Since Dominican allegations not yet known to Committee, it is impossible at this time to predict what action Committee will take on them. It is my personal view and I believe unanimous view of Committee that Committee's activities should not supplant normal bilateral diplomatic negotiations between interested parties; and that Committee should take no action which would be offensive either to Cuba or Dominican Republic. Cuban Emb here has been in touch with Dept and will undoubtedly keep FonMin currently informed further developments. I see no need for Cuban Govt to feel concerned (assuming, of course, it has nothing to conceal and is observing inter-American commitments).

[DANIELS]

MARSHALL

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<sup>1</sup>Not printed.

737.39/8-1948

*Memorandum of Conversation, by the Assistant Chief of the Division of Caribbean Affairs (Walker)*

CONFIDENTIAL

[WASHINGTON,] August 19, 1948.

Participants: Ambassador Guillermo Belt—Cuban Embassy  
 Señor Ricardo Sarabasa, First Secretary—Cuban Embassy  
 ARA—Mr. Daniels  
 CRB—Mr. Walker

Ambassador Belt at his request called on Mr. Daniels this afternoon to discuss the Dominican charges against Cuba which were presented to the Committee of Five last week. He branded these charges as ridiculous and fantastic, pointing out that there was no conflict between the two countries and no justification for seeking recourse through the Committee of Five. Cuba, he stated, had fully complied with its international commitment in connection with the revolutionary activities of last year and would continue to adhere to its policy of nonintervention in the internal affairs of other states. The Dominican revolutionaries, he stated, were taken into custody last year and brought to trial in conformity with Cuban law.

The Ambassador said that there were numerous Dominican exiles in Cuba but that the Cuban armed forces would not permit them to use Cuba as a base for organizing an attack against the Dominican Republic. In this connection, he remarked that there were many Cuban exiles in the United States who were openly opposed to the present Cuban government but they were not kept under custody by U.S. authorities nor were their movements restricted. He went on to say that if there were any legal justification for the Dominican charges against Cuba concerning the Dominican exiles, then Cuba might conceivably have a basis for seeking indemnity from the United States with respect to the activities of Cuban political exiles here.

The Ambassador said that he had discussed the Dominican matter with Grau and President elect Prío,<sup>1</sup> both of whom felt that the Dominican charges were absurd and that there was much less likelihood of a conflict between Cuba and the Dominican Republic than between two countries that have adjoining frontiers such as in Central and South America.

Cuba, he said, would like to reach a harmonious accord with the Dominican Republic but could not, under any circumstances, recognize the claims presented by the Dominican delegation. He remarked that he was on the most friendly and cordial terms with Ambassadors

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<sup>1</sup> Ramón Grau San Martín, President of Cuba, 1944-48; Carlos Prío Socarrás, President of Cuba, 1948-52.

Arturo Despradel and Ortega Frier and inquired whether it might be well to have an informal discussion with them. Mr. Daniels indicated that he thought it might be well to do so.

The Ambassador said that he had not decided whether he should attend the Committee of Five meetings and wondered whether Mr. Daniels had any views on this point. Mr. Daniels said that in his personal opinion there would seem to be no reason why the Ambassador should not participate in a meeting confined to a discussion of routine matters such as procedure and regulations, but that a meeting for a discussion of substantive questions might be a different matter. Mr. Daniels reiterated that this was his personal view and that he could not, of course, speak for the other members of the Committee.

Mr. Daniels took occasion to express his view, which he believed was shared by the other Committee members, that it was the Committee's intention to consider the Dominican charges in an effort to be of assistance in reaching a solution which would be mutually satisfactory to both parties, but that it was not the Committee's desire to take any action which would preclude usual diplomatic negotiations between the two parties concerned.

The Ambassador again pointed out that he thought it was foolish for the Dominican Government to request the Committee of Five to consider these charges and that, in the event the case were ever brought before the council of the Organization of American States, the so-called pro-Trujillo group comprised of the Dominican Republic, Nicaragua, and Honduras would probably vote against Cuba and the other states in favor of Cuba.

The Ambassador referred to various press reports concerning Dr. Prío's visit to Mexico and stated that the story concerning Dr. Prío's alleged conversation with President Alemán<sup>2</sup> on the Dominican liberation movement was based on speculation and was without foundation. He remarked that Dr. Prío was leaving for Guatemala tomorrow and that a similar speculation might be made with respect to his conversation with Guatemalan officials. In this connection, Mr. Daniels expressed the view that if Dr. Prío in his conversation with Guatemalan officials were to reiterate Cuba's intention to adhere to its policy of nonintervention, it might well be of assistance in eliminating some of the tension in the Caribbean area.

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<sup>2</sup> Miguel Alemán Valdes, President of Mexico.



737.39/8-2048

*Memorandum by the Chief of the Division of Special Inter-American Affairs (Dreier)*

CONFIDENTIAL

[WASHINGTON,] August 20, 1948.

Subject: Meeting of the Inter-American Committee on Methods for Peaceful Solution of Conflicts

All the members of the Committee, including Ambassador Belt, were present, with Quintanilla in the Chair. Belt arrived a few minutes late.

Just as the four members were sitting down to start work, Salazar (Dominican Republic) came in to inform the Committee that his Government, pursuant to its obligation under Article 54 of the UN Charter had informed the Security Council of its initiative in bringing its complaint against Cuba to the Committee's attention. Salazar then left, no member of the Committee having commented on his statement. However, Corominas (Argentina), as soon as Salazar had left, expressed his regret that the Dominican Government had done this and questioned whether it was necessary. There followed a debate on Article 54 which does not stipulate whether the individual states, or the regional organization, should inform the Security Council of steps taken through regional arrangements to settle international disputes. Dr. Fenwick<sup>1</sup> was asked to look into this subject and report to the Committee at a later meeting.

Belt (Cuba) arrived at this point and Quintanilla asked him whether he desired to start right in with the consideration of regulations or whether, before the formal session of the Committee opened, Belt might wish to say a few words on a friendly and entirely informal basis. Belt then expressed some doubt as to whether he actually was accredited as a member of the Committee but proceeded to express a very conciliatory and calm point of view toward the Dominicans. He reported that through the arrangements made by Ambassador Corominas he had met with the Dominican Mission the previous afternoon and had had very friendly discussions with them. He said he felt confident that the case brought by the Dominicans to the Committee could and should be settled bilaterally by agreement between two governments.

The meeting then turned its attention to the regulations; the following being the principal points discussed or decided.

. . . . .

3. Quintanilla brought up the question of the position of a government which was at one time a member of the Committee and a party to a dispute. He suggested that in such a case the government's repre-

<sup>1</sup>Charles Fenwick, Director of the Department of International Law and Organization of the Pan American Union.

sentative should abstain from participation as a member of the Committee. Ambassador Belt argued that a member should be permitted to continue to serve on the Committee but without a vote. After considerable discussion it was decided to accept the procedure followed in the Security Council whereby a member of the Committee involved in a dispute continues to sit on the Committee but without a vote while any other parties to a dispute are also allowed to sit with the Committee with a voice but not a vote, thus assuring equal treatment to all parties.

(Article 4. “. . . Cuando uno de los miembros de la comisión fuere [*sic*] nacional de una de las Partes, se abstendrá de votar, y se concederá a la otra o otras Partes derecho de voz en las reuniones de la comisión”.)

4. Ambassador Belt strongly urged that the Committee be required first to determine whether a conflict existed before suggesting any methods or procedures for resolving it. Corominas (Argentina) and Correa da Costa (Brazil) opposed this. I also opposed it on grounds that it was a semi-judicial action which the Committee was hardly competent to take. The problem was finally resolved by revising the language of the appropriate article of the regulations to make clear that the Committee would suggest methods and procedures for the solution of conflicts only “si estima conveniente”. . . .

JOHN C. DREIER

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738.39/8-2348

*Memorandum of Conversation, by Mr. Charles C. Hauch of the Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] August 23, 1948.

Participants: Ambassador Thomen

ARA—Mr. Daniels

CRB—Mr. Hauch

During a call on Mr. Daniels, Ambassador Thomen stated that he had been instructed by his government to give official assurances to the Department of State that the Dominican Republic has not intervened in Haitian affairs and has no intention of so intervening. Mr. Daniels said he was very glad to receive this statement.

The Ambassador went on to say that his government is, however, apprehensive of the attitude of the Haitian Government towards the Dominican Republic and believes the former has committed itself to undertakings with other countries unfriendly to the Dominican Government. He said his government has recently addressed a note to the Haitian Government on this matter. He did not know the exact date of the note but when questioned thought it might well be the note

of July 10 from the Dominican Foreign Office to the Haitian Ambassador in Ciudad Trujillo.

Mr. Daniels stated that several days before he had been discussing this same subject with Haitian Ambassador Charles, who had assured him that the Haitian Government has no intention of invading the Dominican Republic or participating in any activities against it. Mr. Daniels observed that both the Dominican and Haitian governments are thus resolved not to be parties to any interventionist activities directed against each other.

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737.39/9-1648 : Airgram

*The Secretary of State to the Embassy in the Dominican Republic*<sup>1</sup>

WASHINGTON, September 16, 1948.

A-126. With reference to the consideration of Dominican charges against Cuba before the Inter-American Commission on Methods for the Peaceful Solution of Conflicts (Committee of Five), the following is the text of a press release issued by the Commission on September 9 :

"The Inter-American Commission on Methods for the Peaceful Solution of Conflicts met at 4 p. m. on Thursday, September 9, 1948 to consider the matter submitted on August 13, 1948 by the Special Delegation of the Dominican Republic now in Washington.

"The following members of the Commission attended the meeting: Ambassador Luis Quintanilla, Representative of Mexico and Chairman of the Commission; Ambassador Enrique V. Corominas, Representative of Argentina; Ambassador Paul C. Daniels, Representative of the United States; Doctor Sergio Correa da Costa, Representative of Brazil; Dr. Ricardo Sarabasa, Representative of Cuba.

"The following members of the Special Delegation of the Dominican Republic were present: Ambassador Julio Ortega Frier, Chairman; Ambassador Joaquín Salazar; Ambassador Arturo Despradel and Minister José Ramón Rodríguez.

"The Commission has already given careful consideration to the Note and accompanying documents delivered by the Dominican Delegation.

"As soon as the Commission was requested to intervene, its Chairman and members immediately proceeded to exchange views with the Representatives of the interested Parties for the purpose of finding a friendly manner of resolving their differences of opinion.

"As a result of the good services of the Commission, and of the special session held today, the Commission is pleased to announce that the Representatives of Cuba and the Representatives of the Dominican Republic have willingly accepted the suggestion of the Commission that direct negotiations be carried out through the usual official channels

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<sup>1</sup> Copies were sent to the Embassies in Cuba and Haiti.



for the purpose of settling the matter in a way satisfactory to both. This, the Commission feels, can be accomplished without difficulty.

"The Commission is pleased to state that the happy results attained in this case—a notable instance of fair international behavior—is due principally to the good will manifested by the Commission and in the exchange of friendly conversations between themselves, were always motivated by the highest feeling of American fraternity, and by the spirit of unshakeable solidarity characteristic of inter-American relations."

MARSHALL

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810.00/9-2948

*Memorandum of Conversation, by the Director of the Office of American Republic Affairs (Daniels)*

[WASHINGTON,] September 29, 1948.

Last night I mentioned to Ambassador Nabuco <sup>1</sup> my continuing concern at the state of tension in the Caribbean and Central American area, as represented by repeated rumors of invasion plans and revolutionary activities being fomented in one country directed against the Government of another. I called attention to the grave danger to the Hemisphere which would ensue if an international conflagration in that area were to break out. I said that from that broader angle it might be a matter of concern to the Government of Brazil, as well as to the Government of the United States, and I raised the question as to whether the Brazilian Foreign Office might not wish to take a more active interest in the matter, possibly through its diplomatic missions in that area, with a view to re-enforcing the efforts we were already making to remove this threat to our security. I said that I wished the Ambassador and his Government to know that we did not consider this exclusively a problem for the United States and the nations in the Caribbean area, but one which might well engage the interest of Brazil and all the American republics; and that accordingly we could not but welcome any helpful initiative aimed at maintaining international peace which the Brazilian Government might wish to take.

Ambassador Nabuco expressed agreement with the foregoing line of thought, and said he would sound out the Itamaraty to see what action they might properly and usefully take. I expressed a willingness to stay in touch with him in regard to the matter.

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<sup>1</sup> Mauricio Nabuco, Brazilian Ambassador in the United States.

737.39/9-3048

*Memorandum of Conversation, by the Ambassador in the Dominican Republic (Ackerman)*<sup>1</sup>

CONFIDENTIAL

CIUDAD TRUJILLO, September 29, 1948.

In the course of a conversation with the Secretary of State for Foreign Affairs this morning (September 29), he informed me that he has addressed a cordial note to the Cuban Government stating that the Dominican Government is now prepared to name its delegates to discuss with a Cuban delegation the Cayo Confites claims and inquiring when the Cuban Government will be disposed to begin negotiations. Inasmuch as the Cuban Government probably would not desire to send a delegation to Ciudad Trujillo and the Dominican Government feels that were it to send its delegates to Havana they might be subjected to molestation or attacks by the Cuban press, the Secretary considers that Washington is the only suitable place for these negotiations, especially as it is his understanding that the Committee of Five will continue supervision as needed.

The Secretary informed me that the Dominican Government was pleased with the recent announcement that Carlos Heria has been named as Minister for Foreign Affairs for the Prío government. According to the best information available here, he understands that Heria has not heretofore mixed in Cuban politics, that he has great ability and, at the same time, mature judgment and equilibrium. As he is not known to be anti-Dominican, the Secretary is inclined to believe that he may be a stabilizing influence on President Prío, especially in international affairs.

The Secretary again remarked that this Government hopes it may be possible to enter into bilateral arrangements with Cuba and other nearby countries for implementing the non-intervention policy so that it may be relieved of the need for continuing expenditures in armaments and other equipment and will be enabled to devote such sums to needed public works and other enterprises which will benefit the country economically. If the new Cuban Minister for Foreign Affairs will advocate a similar Cuban foreign policy, it should benefit the entire Caribbean area.

RALPH H. ACKERMAN

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<sup>1</sup> Copy transmitted to the Department of State by Ambassador Ackerman in his despatch 556, September 30, 1948.

710.Consultation 2(F)/10-448

*Memorandum by Mr. Charles C. Hauch of the Division of Caribbean Affairs*<sup>1</sup>

[WASHINGTON,] October 4, 1948.

The controlled newspaper *La Nación* of Ciudad Trujillo published on September 23 an article entitled "Results of the Dominican action before the Inter-American Commission on Methods of Peaceful Solution of Conflicts". The newspaper stated that this article contained information obtained from the "most authorized sources".

Of particular interest is the statement that one of the results obtained by the Dominican Government from the "Committee of Five" was the latter's recognition of "the necessity of continuing in charge of the case in view of the possibility that direct negotiations may not lead the parties to any satisfactory solution."

The Embassy notes that this statement together with the continuing newspaper attacks on Cuba may indicate the Dominican Government's belief that direct negotiations may not prove successful. It is rumored that President Trujillo is not entirely satisfied with the outcome of the negotiations and that he had hoped for some kind of indictment by the Committee which would reflect more unfavorably on Cuba. This rumor is not in conformity with impressions conveyed to Ambassador Ackerman by the Foreign Minister.

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<sup>1</sup> Addressed to Messrs. Mackay, Woodward, Daniels, Price, Walker, and Jamison.

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737.39/10-1948

*The Chargé in Cuba (Mallory) to the Secretary of State*

CONFIDENTIAL  
No. 843

HABANA, October 19, 1948.

SIR: I have the honor to report that during a call on the Minister of State this afternoon at his request, he referred to the Cuban attitude towards the Dominican Republic. He also referred to the visit of Ambassador Butler last Thursday, October 14, at which time a brief statement was left with the Minister of the attitude of the United States concerning tension in the Caribbean, and said that at that time he had not been prepared to make known his views. He wished to make them known to me at this time. He said that his firm position, which he believed was fully shared by the President, was that Cuba would not permit the formation or departure of armed expeditions from Cuba. He stated that no arms would be turned over by Cuba. He said that there were no sizable quantities of arms held in unofficial hands



and that were there any sizable amounts they would be seized. He said, however, that there might be scattered arms over which the Government would not have control. Likewise, should someone load and depart with a small vessel from some Cuban port without the knowledge of the Cuban Government, naturally they could not control that. He emphasized their determination to prevent any official participation in activities against another country. He then stated that this did not mean, however, that Cuba was not ideologically opposed to dictatorships of whatever form. He said it is not proper to criticize dictatorships in other parts of the world and to condone them in nearby waters. He also said that there were economic reasons as well; that, for example, Cuba with its high sugar wage costs, and even the United States with its higher wage costs meet what may be termed disloyal competition in a dictatorship country where wages are held at very low levels. He inferred that statements of policy or press announcements might be made from time to time against dictatorships of whatever form.

I congratulated the Minister on the attitude of his Government in not participating in any trouble in this area and took occasion to hand him a copy of the address made by Mr. Paul Daniels at the laying of the cornerstone of the new Administration Building of the Pan American Union.<sup>1</sup> He said that he would read it. I said that a statement such as he had just made to me would be very useful in quieting certain fears and wondered whether it might be possible for him to announce it publicly or to make it known through some of the inter-American organisms. The Minister replied that he had made a statement to the local representative of the Associated Press on Saturday last but had not seen its use. (A subsequent check with the Associated Press representative reveals that it was used out of New York on the A circuit, the most important of the American newspapers.) The Minister said that he was also formulating a statement of policy but this would take him a little while to prepare. I told him I hoped to receive a copy.

I took occasion to inquire of the Minister on a personal basis of the possible progress of the "direct negotiations" between the Dominican Republic and Cuba. The Minister said that he was not in favor of the "direct negotiations" because they were on a false basis. He said that the Dominican Republic in making its appeal had endeavored to preclude any accusations from Cuba while at the same time itself making an accusation. He said that this was not tenable and could not be accepted by Cuba. He added, almost as an aside, that President Prío was not happy with Ambassador Belt's actions in this matter in having let such a situation slip by him.

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<sup>1</sup> For Mr. Daniels' address of October 12, 1948, see *Annals of the Organization of American States*, vol. I, no. 1, 1949, pp. 247-249.

The Minister was entirely friendly, was very frank, and obviously wished to state his position as soon as possible after taking office.

Respectfully yours,

LESTER D. MALLORY

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737.39/11-1748

*Memorandum by Mr. Charles C. Hauch of the Division of Caribbean Affairs to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON.] November 23, 1948.

According to the Cuban Chargé in Ciudad Trujillo, the Cuban Foreign Office feels the Dominican government has adopted a completely untenable position by suggesting that the direct negotiations recommended by the "Committee of Five" be carried out by missions appointed by the two governments. He stated his government believes the negotiations should be conducted only by diplomatic notes between the two Foreign Offices. The Chargé added that the Dominicans are evidently not inclined to follow literally the recommendation of the "Committee of Five", the exact text of which, according to the Chargé, had suggested, "direct negotiations, Foreign Office to Foreign Office, through the usual official channels."

The Chargé also stated his government's view that the Dominican Republic really was not in a position to refer the matter to the "Committee of Five" at all, since it is not a full party to the Habana 1928 Convention on the Rights and Duties of States in the Event of Civil Strife, which he said the Dominican government ratified with reservations. The Cuban Chargé appears to be confused, since the procedure invoked by the Dominicans in appealing to the "Committee of Five" was set up by a resolution of the 1940 Habana Meeting of Foreign Ministers, to which the Dominicans did enter a reservation, and not by the 1928 Habana Convention, which they ratified without reservations.

In another despatch, the Embassy reports that the recent lull in editorial attacks in [on] Cuba in the controlled Dominican press continues, although reprints of anti-Prío articles from the Cuban press have appeared in Dominican papers.

Attachments:<sup>1</sup>

1. From Ciudad Trujillo, D.R., Despatch No. 638, November 17, 1948.
2. From Ciudad Trujillo, D.R., Despatch No. 637, November 17, 1948.

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<sup>1</sup> Not printed.

# POLICY OF THE UNITED STATES REGARDING ANTI-COMMUNIST MEASURES WITHIN THE INTER-AMERICAN SYSTEM

810.00B/6-2148

*The Secretary of State to Diplomatic Representatives in the American Republics*

SECRET

WASHINGTON, June 21, 1948.

The Secretary of State transmits herewith for the information and guidance of the Officers in Charge a copy of Policy Planning Staff paper no. 26, dated March 22, 1948 entitled: "To establish U.S. policy regarding anti-Communist measures which could be planned and carried out within the Inter-American System." The Secretary of State approves the conclusions and recommendations in this paper.

There is likewise enclosed for convenient reference a copy of the resolution approved at the Ninth International Conference of American States at Bogotá<sup>1</sup> on the same subject.

[Enclosure No. 1]

FINAL ACT OF BOGOTÁ

RESOLUTION XXXII

THE PRESERVATION AND DEFENSE OF DEMOCRACY IN AMERICA

WHEREAS:

In order to safeguard peace and maintain mutual respect among states, the present situation of the world demands that urgent measures be taken to proscribe tactics of totalitarian domination that are inconsistent with the tradition of the countries of America, and prevent agents at the service of international communism or of any totalitarian doctrine from seeking to distort the true and the free will of the peoples of this continent;

THE REPUBLICS REPRESENTED AT THE NINTH INTERNATIONAL CONFERENCE  
OF AMERICAN STATES

DECLARE

That by its anti-democratic nature and its interventionist tendency, the political activity of international communism or any totalitarian doctrine is incompatible with the concept of American freedom, which rests upon two undeniable postulates: the dignity of man as an individual and the sovereignty of the nation as a state;

<sup>1</sup> For documentation on this Conference, see pp. 1 ff.



**REITERATE**

The faith that the peoples of the New World have placed in the ideal and in the reality of democracy, under the protection of which they shall achieve social justice, by offering to all increasingly broader opportunities to enjoy the spiritual and material benefits that are the guarantee of civilization and the heritage of humanity;

**CONDEMN**

In the name of the Law of Nations, interference by any foreign power, or by any political organization serving the interests of a foreign power, in the public life of the nations of the American continent,

**AND RESOLVE:**

1. To reaffirm their decision to maintain and further an effective social and economic policy for the purpose of raising the standard of living of their peoples; and their conviction that only under a system founded upon a guarantee of the essential freedoms and rights of the individual is it possible to attain this goal.

2. To condemn the methods of every system tending to suppress political and civil rights and liberties, and in particular the action of international communism or any totalitarian doctrine.

3. To adopt, within their respective territories and in accordance with the constitutional provisions of each state, the measures necessary to eradicate and prevent activities directed, assisted, or instigated by foreign governments, organizations, or individuals, that tend to overthrow their institutions by violence, to foment disorder in their domestic political life, or to disturb, by means of pressure, subversive propaganda, threats or by any other means, the free and sovereign right of their peoples to govern themselves in accordance with their democratic aspirations.

4. To proceed with a full exchange of information concerning any of the aforementioned activities that are carried on within their respective jurisdictions.

[Enclosure No. 2]

*Paper Prepared by the Policy Planning Staff*

SECRET  
PPS-26

[WASHINGTON,] March 22, 1948.

Problem: To Establish U.S. Policy Regarding Anti-Communist Measures Which Could Be Planned and Carried Out Within the Inter-American System

*Analysis:*

1. The question of Communism will be considered at the Ninth International Conference of American States which will meet at Bogotá on March 30, 1948. Proposals similar to Resolution VI adopted at the second meeting of the Ministers of Foreign Affairs of the American Republics at Havana, Cuba, July 1940,<sup>3</sup> probably will be made. The Havana Resolution provides that: "Each one of the Governments of the American Republics shall adopt within its territory all necessary measures in accordance with its constitutional powers to prevent and suppress any activities directed, assisted, or abetted by foreign governments, or foreign groups or individuals, which tend to subvert the domestic institutions, or to foment disorder in their internal political life, or to modify by pressure, propaganda, threats, or in any other manner, the free and sovereign right of their peoples to be governed by their existing domestic systems." This resolution also provides that the respective governments agree that they will immediately consult together, if the state directly interested wishes to request it, in the event that the peace of any of the American Republics is menaced by such activities.

2. In calling attention to these facts the Bogotá Review Group in the Department expressed concern that some of the measures proposed at the Bogotá Conference by other American Republics might be so drastic in nature that they would, if accepted by the United States, increase international tension, give dictatorial governments in other countries a means of attacking all opposition, and might even infringe constitutional liberties in the United States.

3. The subject of anti-Communist agreements among the American Republics was raised with the Department by the Argentine Government during August 1947. The Argentine Foreign Minister emphasized the desirability of anti-Communist agreements to which the United States would be a party, but then inconsistently observed: "Argentina does feel, however, that the United States should change in some ways its extreme opposed position vis-à-vis Russia". Nothing came of the Argentine suggestion regarding anti-Communist agreements; but the Argentine Government probably will pursue the question further at the Bogotá Conference.

4. During the latter part of 1947, the Dominican Government suggested to the Haitian Government the negotiation of an anti-Communist agreement. The Haitian Government replied that the other American Republics should be included in such important agreements, and that the Dominican Government might wish to take the initiative regarding multilateral agreements among the American Republics. The Dominican Government followed the Haitian suggestion, but its pro-

<sup>3</sup> Department of State Treaty Series No. 977, or 56 Stat. (pt. 2) 1273.

posals met with slight response from the other American Governments. The Department sent the following telegraphic instruction to American diplomatic officers in the other American Republics under date of December 17, 1947:

In the event you should be consulted with respect to the views of this Government concerning possible multilateral inter-American action for defense against Communist penetration—as a result of such initiatives as the recent suggestion made by the Dominican Government to the Haitian Government—you may indicate that the United States Government believes that this problem, the seriousness of which is recognized, can best be dealt with at present by each country in accordance with the varied situations from country to country. The United States Government recognizes, of course, that as circumstances may change in this respect there may eventually be occasion for modifying this view.

The accelerated activities of international Communism indicate that the time may have come, as foreseen in the last sentence of the December 17 instruction, for a careful and thorough review of the position of the United States Government regarding means to combat Communism.

5. The consensus of several officers of the Department who were consulted during the preparation of this paper is that Communism in the Americas is a potential danger, but that, with a few possible exceptions, it is not seriously dangerous at the present time.

According to OIR Report No. 4367 of September 16, 1947, entitled "Communist strength in the other American Republics", the "best figures" estimate of Communist Party membership in the twenty Latin American countries is approximately 360,000. This would be about one-quarter of one percent of the population of those countries.

It should be pointed out, however, that these assessments of Communist capabilities may require revision if Communist domination spreads further in Europe, particularly to Italy and France. There are large colonies of Italian immigrants in several of the American Republics in which the Communists may succeed in gaining increased influence which might constitute an important accretion to Communist strength. The influence of French culture and ideas always has been strong in the American Republics, and every effort would be made through a Communist-dominated France to make full use of this advantage.

6. A draft paper regarding U.S. policy toward the other American Republics was prepared in the Department during the latter part of 1946. The following points made in this policy paper have a bearing on the problem of Communism:



(a) A common belief in Republican institutions has been, and must continue to be, one of the fundamental bases of inter-American solidarity;

(b) It is the policy of the United States to support in every proper way the forces which make for progress toward representative government based on constitutional procedures and respect for civil liberties and human rights;

(c) Two new forces threatening democracy have, during and since the war, made their appearance in Latin America: a brand of Fascism deriving in part from Nazi ideology, and, second, Communism;

(d) The Government of the United States considered it undesirable at that time to initiate any general attack against local Communist movements or their sources of inspiration, but recognized that it might be compelled to act in the event that Communist activities should appear to be endangering inter-American solidarity or security;

(e) The policy of the United States was to stand upon the inter-American principle of non-intervention, but without derogation from the right of the community of States to concern itself with any matter bearing upon its peace and welfare—a right which is inherent in the inter-American principle of consultation and in the Charter of the United Nations.

7. Several conditions which play into the hands of the Communists exist in many of the American Republics. There is poverty that is so widespread that it means a bare subsistence level for large masses of people. There are ignorance and a high degree of illiteracy. There are strong reactionary forces which, through extreme selfishness and lack of any sense of social responsibility, impose a minority will through military or other dictatorial governments and so alienate large segments of their populations which otherwise probably would be anti-Communist. Taking advantage of these conditions to acquire power which will serve Communist ends, the most effective and well organized force at the disposal of the Communists in certain countries is the CTAL (Confederación de Trabajadores de America Latina), led by the Mexican crypto-Communist, Vicente Lombardo Toledano. The principal strength of the CTAL is in Mexico, Colombia, Cuba, Chile, Ecuador, Uruguay and Costa Rica.

8. There also are strong anti-Communist forces at work in Latin America. The Catholic Church, the armed forces, and the large land-owners naturally provide strong opposition to Communism. These three elements frequently work together and dominate governments. Unfortunately, they sometimes come close to the extreme of reaction which is very similar to Communism as concerns totalitarian police state methods. More hopeful developments in the effort to combat Communism depend in part upon an increasingly rapid growth of middle classes, plans for the more effective organization of anti-Communist labor, and more effective action by liberal and Socialist elements which, while frequently of the left, are anti-Communist in ideology and in

method. The inter-American Confederation of Labor, with the active support of the A.F. of L., is a new and promising force which is challenging the position of the CTAL and has already made important progress, particularly in Chile.

9. Ample precedent for common measures to combat Communism in the Americas exists in the programs and activities carried out during the last World War. Many resolutions adopted in inter-American conferences express the determination to oppose totalitarian and subversive activities which seek to destroy the democratic system of the American Republics. Specific action was taken through the work of the Emergency Advisory Committee for Political Defense with headquarters at Montevideo; through the exchange of information among the American Governments; through programs of police cooperation; and through a coordination of effort in the control of travel, communications, and the issuance of passports and visas.

Any program of cooperation among the American Republics to combat Communism will require some means of coordination among the American Republics, and arrangements within the Department of State to provide a responsible center for coordination of action to be taken by several departments and agencies of our Government which will be concerned with the problem.

10. It is stated in the comment by the Bogotá Review Group that there are dangers for the United States inherent in possible bilateral or multilateral anti-Communist agreements among the American Republics. There is a probability that, due to uneven progress toward democracy in the other American Republics, there would be many cases in which such anti-Communist agreements would be directed against all political opposition, Communist or otherwise, by dictatorial governments, with the inevitable result of driving leftist elements into the hands of the Communist organization.

### *Conclusions:*

11. The policy of the United States regarding common measures to combat Communism, which could be planned and carried out within the inter-American System, should be governed by the following considerations:

(a) International Communism at the present time must be regarded as the tool of the Kremlin, which the latter utilizes to advance Russian imperialistic designs and to supplant democracy throughout the world with a totalitarian police state system that suppresses human rights and civil liberties;

(b) International Communism, consequently, is a direct and major threat to the national security of the United States, and to that of all of the other American Republics;

(c) This threat, at the present time, is a potential rather than an immediately serious one in Latin America generally, but preventive measures should be taken to minimize it before it becomes more dangerous;

(d) The national security of the United States should be the determining factor in establishing our position regarding common inter-American measures to combat Communism. There are strong and extreme reactionary forces and governments in Latin America which, through selfishness and lack of any sense of social responsibility, impose a minority will through military or other dictatorial governments and so alienate large segments of their populations which otherwise probably would be anti-Communist. These reactionary forces often adopt a strong anti-Communist line, but frequently apply repressive measures to all political opponents, alleging that the latter are Communists whether or not that is the fact. These reactionary forces also work with Communists against Liberal and Socialist elements for reasons of pure political opportunism. Consequently, co-operation of the United States with these reactionary elements, even in anti-Communist measures, should be very carefully considered in the light of our long-range national interests."

(e) It is extremely important, always with our own national security in mind, to concentrate upon the defeat of international Communism. As a corollary, it is essential to follow policies and to adopt measures calculated not only to command the very valuable support of anti-Communist labor, liberal and Socialist elements, but also to persuade sufferers from reactionary forces in the American Republics that the United States is a better and more promising hope than Communism or the Soviet Union.

#### *Recommendations:*

12. The United States should not enter into anti-Communist agreements with the other American Republics, and should oppose a multi-lateral inter-American anti-Communist agreement, until further study has been given to the problem.

However, the Delegation of the United States should propose an anti-Communist resolution. The resolution should refer to recent developments in some countries outside of the Americas which illustrate the aggressive action of Communist minorities. It should refer to inter-American resolutions condemning totalitarianism. The United States resolution should express strong condemnation of international Communism as an example of the totalitarian police state system that suppresses all human rights and civil liberties. The resolution also should state in positive terms the support of the subscribing governments for human rights and civil liberties and for social and economic policies designed to raise the standard of living of the peoples and accord economic security.

13. An immediate study should be made by ARA, EUR, and S/P to determine if the national interests would be served by resolute leadership on the part of the United States in an effort to have all Com-



munist parties in the Western Hemisphere declared illegal by the various governments, and to eliminate Communist influence and activity as far as possible.

14. The Department of State should:

(a) encourage exchange of views and information among the American Republics regarding Communist activities and means to combat them;

(b) explore the possibility of utilizing the consultative meetings of Ministers of Foreign Affairs of the American Republics as the Inter-American body to coordinate policy in this matter;

(c) arrange for the coordination of the activities of departments and agencies of our government which would participate in a program to combat Communist activities; and

(d) give information and guidance to American Ambassadors to the other American Republics regarding international Communism and the means to combat it.

15. The movement for the organization of non-Communist labor, including Catholic labor unions, in the other American Republics should be encouraged. In particular, support should be given by every practicable means to the Inter-American Confederation of Labor.

Well qualified Labor Attachés should be assigned to our Embassies in key countries among the American Republics where Communist activities are an important problem or where labor organization is a significant factor. The importance of appointing well-qualified individuals is emphasized. An effort must be made to include selected members of labor organizations.

16. After consultation with the Federal Bureau of Investigation, the Central Intelligence Agency, and other interested departments and agencies, the Department of State should work out a plan for police cooperation in the Americas to combat Communist activities, including the possible training in the United States of police officials from the other American Republics.

17. The Department of State should take whatever action may be possible to refuse passports to known Communists who are citizens of the United States and who wish to go to any of the other American Republics. (It is understood that this matter now is before the Under Secretary for consideration.)

18. ARA, in cooperation with other interested offices, should continue to give urgent attention to specific plans for assisting in the economic development of the other American Republics. Such plans should be consistent with other obligations of the United States and should be subject to higher priorities in other parts of the world; and should be based on the principle of helping the other American Republics to help themselves.

Since effective economic and social cooperation is a major weapon

to combat Communist influence, cooperative inter-American programs such as those relating to public health and sanitation, agriculture, food production, etc. should be continued.

19. The Department of State should continue to utilize and to improve those activities in its Information and Cultural Program in Latin America that would help to combat Communism. The recommendations contained in the statement of "U.S. information policy with regard to anti-American propaganda", dated December 1, 1947,<sup>4</sup> should be carried out vigorously and fully.

American libraries and cooperative cultural institutes should not become involved in internal political affairs in the other American Republics. Their influence will be anti-Communist if they carry out their normal functions efficiently. Radio, press, and motion picture programs should be reviewed to determine their effectiveness as measures to combat Communism.

20. A systematic and continuous effort should be made to inform United States business interests operating in the American Republics and, where possible, United States citizens residing or travelling there, about the problems and objectives of United States policy in combatting Communism in those countries, with a view to enlisting their cooperation.

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<sup>4</sup> See statement on the objectives of United States information policy with regard to anti-American propaganda, enclosure No. 1 in a circular instruction of July 20, 1948, included in the documentation on United States National Security Policy in volume I.

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810.00B/10-1548

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*

TOP SECRET

WASHINGTON, October 15, 1948.

SIRS: At the Bogotá Conference in April of this year there was approved unanimously an anti-Communist resolution providing among other things that the American Republics will exchange information among themselves to assist in checking subversive Communist activities. This proposed exchange of information may properly be considered a commitment on the part of the United States as well as the other American Republics, and it is appropriate therefore that the United States should implement this resolution in cooperation with the Governments of the other American Republics.

. . . . .

You are instructed therefore, to discuss this matter with the Foreign Minister and any other appropriate authorities of the country to which you are accredited and to arrange for the establishment of a suitable

liaison and procedure by which information of the type mentioned in the Bogotá Resolution may be exchanged. Liaison with some countries may be directly with the Foreign Office, while in other instances more suitable regular arrangements for the interchange may be established with another ministry or with the police. In all cases the liaison, particularly the designation of specific officials of both the Embassy and the other government, should be arranged personally by the Chief of Mission directly with the appropriate high official or officials of the other government.

For the information of the mission, the Department recognizes that arrangements for exchange of information under the Bogotá Anti-Communist Resolution may be modified as experience is gained. The nature, quantity and quality of the information which will be exchanged will vary with each country and may well develop only after a period of trial.

The recommendations and comments of the missions are requested on this matter, as well as a report specifically on (a) the arrangements that have been negotiated with the Foreign Office, and (b) the arrangements effected within the mission and the name of the officer designated for liaison duty.

Very truly yours,

For the Acting Secretary of State  
W. PARK ARMSTRONG, JR.  
*Special Assistant for Research and Intelligence*

810.00B/10-2848 : Airgram

*The Acting Secretary of State to the Embassy in Argentina*

TOP SECRET

WASHINGTON, November 9, 1948.

A-510. Re Embassy's A-497 of October 28<sup>1</sup> Department's views are as follows with reference President Perón's observations:

This Government of course agrees with President Perón that Communism is a very serious problem in the American republics and greatly appreciates receiving these constructive thoughts of the President on the subject. The Department will be very pleased to receive the President's current proposal and to give it careful consideration in as much as this Government is actively interested in effective action toward a resolution of the problem. This Government believes, however, that before deciding upon a specific inter-American conference or discussion on this subject, it would first be logical and systematic

<sup>1</sup>Not printed; it reported President Perón's informal recommendation of a secret inter-American conference to stamp out Communism in the western hemisphere.



to utilize cooperative arrangements in this field which have already been agreed upon and existing channels for preliminary exchanges of views, for a sufficient length of time to obtain more complete information about the aspects of the problem which might require further inter-American discussion or negotiation. In this respect, the United States Government hopes that it will be possible to take steps promptly to translate into vigorous action Resolution No. XXXII approved at the Bogotá Conference last April to exchange information systematically on this subject. Moreover, the Department believes that it would be very advisable to make every effort to perfect the specific liaison on Communist matters between Argentina and the United States. The Department understands that, while President Perón approved and requested this specific liaison arrangement, which resulted in the assignment of an exceptionally qualified officer, . . . the arrangement has not gone into practical effect through the apparent failure of subordinate Argentine officials to follow the instructions the Department understands were issued by President Perón.

In conveying the above views to President Perón, in your discretion, you are authorized to mention that the Department has become discouraged concerning the inadequate use made of [the officer's] services—particularly in the light of the urgent and special recommendations for his assignment made by President Perón and yourself—and that the Department is considering recommending his withdrawal for use elsewhere. The Department is encouraged, by President Perón's views reported in your A-497, to believe that . . . [the officer's] services may now be used to the full and hopes that President Perón will wish to issue further instructions for that purpose.

In this connection and with reference to the Embassy's despatch No. 685 of October 26, 1948,<sup>2</sup> the Department is inclined to agree that the failure of present liaison arrangements, and their preceding two-year record of failure, may be due to a lack of worthwhile information on the part of Argentine authorities, including the Solveyra Caseres office, the *Sección Especial* and the *Coordinación Federal*. The Argentines undoubtedly have a great mass of information but previous admissions by the Chief of *Coordinación Federal* to an Embassy officer were relatively clear that this information mostly referred to relatively overt activities. The value of even these data is suspect in the light of such conversations as that with President Perón reported by Mr. Ray<sup>3</sup> to have occurred just before his recent departure from Buenos Aires. At that time it is understood that the President showed Mr. Ray a chart prepared by his secret operatives showing the functions of officers of the US Embassy; this chart was

<sup>2</sup> Not printed.

<sup>3</sup> Guy W. Ray, Counselor of Embassy.

in considerable error and, furthermore, included US newspaper correspondents as members of the Embassy staff. Such deficiencies in Argentine intelligence led the Department to doubt the accuracy of President Perón's information covering Communist activities.

It is of course borne in mind by the Department that Communist intelligence agents would probably learn of the discussions that might be held at any conference of the kind proposed whether it were secret or not. The discussions would of necessity include consideration of such drastic suggestions that this intelligence would probably reduce still further the possibility of any eventual reconciliation or *modus vivendi* between the East and the West. Nevertheless, if the exchange of information between Argentina and the US and among the other American republics were to reveal very concrete reasons for a conference, this consideration would not preclude such a conference to discuss practical preventive and remedial measures.

LOVETT

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810.00B/12-748: Circular airgram

*The Secretary of State to Diplomatic Representatives in the  
American Republics*

CONFIDENTIAL

WASHINGTON, December 7, 1948—8:15 a. m.

In response to an inquiry from the Chilean authorities as to whether the systematic liaison for exchange of information concerning international Communist activities (as outlined in the Department's circular instruction of October 15, 1948) would likewise include exchange of information on other totalitarian activities, the Department has sent the following reply to Embassy-Santiago which may be useful to you for information:

"Dept approves proposed liaison Emb with Secy Genl of Govt to exchange info subversive activities international Communism or any other totalitarian doctrine directed, assisted or instigated by foreign govts (urtel 757, Nov 24<sup>1</sup>). Such exchange of info should be of inter-American character, for defense of American republics against political organizations serving interests of a foreign power in accordance with Resolution XXXII. If Chilean Govt has in mind consultations or exchange info re internal political regimes and activities other American republics, Dept believes such consultations should be through usual diplomatic channels rather than special technical liaison. Dept assumes Chile does not contemplate any action which might be considered unfriendly by other American republics, or contrary to Art XV Bogotá Charter OAS."

MARSHALL

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<sup>1</sup> Not printed.

810.00B/11-2348

*The Department of State to the Panamanian Embassy*<sup>1</sup>

CONFIDENTIAL

## MEMORANDUM

The Department of State has given careful consideration to the proposal of the Government of Panamá proposing the institution of controls over Communist activities by the American Republics. The proposal of the Government of Panamá suggested that in accord with Resolution XXXII on the Preservation and Defense of Democracy in America, adopted by the Ninth International Conference of American States, the several republics take measures to control within their own borders activities tending to develop and increase Communist activity. The Panamanian proposal further proposed that the American Republics take measures to impede the exit of national Communists for foreign destinations, to deny the entry of foreign Communists into their respective national territories and to require the departure of all foreign Communists now within their borders.

The Department takes this opportunity to declare its concurrence with the views expressed by the Government of Panamá in its proposal. With reference to the points mentioned above, the Government of the United States is already actively engaged in a program to control Communist activities within the United States. For some time, in furtherance of legislation adopted by the Congress of the United States, this Government has refused to permit the entry of foreign Communists into this country except for individuals who are in possession of diplomatic and official passports issued by their respective governments, who are proceeding to this country in official connection with international organizations or persons without official status who may be admitted temporarily for certain special purposes, such as press coverage of the activities of international organizations. In accord with domestic legal requirements, measures are taken to prevent the departure of national Communists for foreign destinations and to bring about the departure of foreign Communists now in United States territory.

The Government of the United States is in agreement with the views expressed by the Government of Panamá respecting the vital importance of adequate control of Communist activities in the Western Hemisphere. It is hopeful that other governments of the American

<sup>1</sup> Handed to the Panamanian Ambassador (Vallarino) by the Director, Office of American Republics (Daniels) on December 15, 1948.

Instruction 172, December 22, 1948 to the Embassy in Panama, not printed, transmitted a copy of the Department's memorandum of December 15 to the Panamanian Embassy in reply to Circular No. 6 of November 23, 1948 issued by the Ministry of Foreign Affairs to the Chiefs of Panamanian diplomatic missions abroad (810.00B/11-3048).



Republics will take appropriate action within the premises of Resolution XXXII of the Final Act of Bogotá in defense of their respective national institutions against the insidious attacks of Communist organizations which are in reality serving the interests of a foreign power.

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*Editorial Note*

On January 27, 1949, the Department of State sent out a circular airgram, not printed, to Diplomatic Representatives in the American Republics outlining procedures amplifying those contained in the circular instruction of October 15, 1948 for liaison with the other American Republics on implementation of Resolution XXXII of the Bogotá Conference. The circular airgram of January 27 said that replies from the missions indicated that in most cases a satisfactory liaison either already existed or had been arranged in accordance with instructions. (810.00B/1-2749)

POLICY OF THE UNITED STATES REGARDING THE  
PROVISION OF MILITARY ASSISTANCE AND ARMA-  
MENTS TO OTHER AMERICAN REPUBLICS, AND RE-  
LATED PROBLEMS OF HEMISPHERE DEFENSE <sup>1</sup>

S10.20 Defense/1-648

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] January 6, 1948.

Participants: Mr. George C. Marshall, Secretary of State  
Señor Dr. Antonio Parra Velasco, Ecuadoran Foreign  
Minister  
Señor Augusto Dillon, Ecuadoran Ambassador in  
Washington  
Mr. George H. Owen, NWC <sup>2</sup>

After a while of pleasant conversation about politically indifferent subjects, I mentioned a plan I had favored immediately after the war, but which it was impossible to carry out, for the rapid development of air transport systems in Latin America with the use of surplus U.S. bombers and transports, concerning which Dr. Parra indicated considerable interest.

I then spoke at some length of certain aspects of hemispheric defense. I recalled the critical times preceding and during American participation in the last war, when I was confronted with the repeated appeals of several Latin American countries, gravely concerned about the inadequacy of their coastal defenses. I pointed out that during the war, Japanese submarines, properly directed, could easily have shelled important industrial installations on the shores of certain West Coast countries.

I mentioned the difficulties which were then and have now to be met in planning adequate continental defense, in particular the political repercussions in the several countries of any negotiations for the installation of needed defense sites. I remarked on the propensity of political factions everywhere to make political capital of defense site agreements on the basis of vaunting "national sovereignty". I recalled how during the war negotiations for vital defense installations in the Dutch West Indies against submarine attacks were prolonged by the Dutch Government and imperiled the whole continent.

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<sup>1</sup> For previous documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 101 ff.

<sup>2</sup> Foreign Affairs Specialist, Division of North and West Coast Affairs.

I made particular reference to the current situation with respect to the defense sites in Panama,<sup>3</sup> pointing to the imperative need for adequate defense of the Canal, which the Republic of Panama is utterly unable to insure by itself and the importance of which to the whole continent may not be fully realized in Latin American countries.

I then turned to the need for developing the natural resources of the continent, in particular oil resources and remarked that the growing requirements and consumption of petroleum products render the development of Latin American oil resources imperative.<sup>4</sup> I indicated that, while I entertained no preference as to the manner under which arrangements for such development should be made, my principal desire was that the development be undertaken as rapidly as possible, since the question of oil supply was a critical defense problem and our resources have been heavily drawn upon.

More than once I invited Dr. Parra to speak about any matter he might wish to discuss. The Foreign Minister merely repeated that he had listened with immeasurable interest to everything I had said and then discussed briefly the matter of his government's boundary dispute with Peru in the Lagartococha area,<sup>5</sup> which he had already taken up at length with Mr. Armour<sup>6</sup> yesterday. I indicated that I knew the principal question at issue in this dispute and that I would have the matter studied.

GEORGE C. MARSHALL

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<sup>3</sup> For documentation on this subject, see pp. 664 ff.

<sup>4</sup> For documentation on this subject, see pp. 243 ff.

<sup>5</sup> Documentation on this subject not published.

<sup>6</sup> Norman Armour, Assistant Secretary of State for Political Affairs.

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710.J/1-2248

*The Secretary of Defense (Forrestal) to the Secretary of State*

SECRET

WASHINGTON, January 21, 1948.

DEAR MR. SECRETARY: For some time the military establishment has believed it desirable to obtain international agreement to certain general principles concerning the development and use of an Inter-American system of military bases for the collective defense of the Hemisphere. These principles include the right of transit and technical stop, by any government-owned aircraft or vessel, on a universally reciprocal basis during peacetime, and availability of bases and facilities during time of emergency to forces of the American states in the defense of the Hemisphere, in accordance with the principles of the Rio Treaty.<sup>1</sup>

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<sup>1</sup> For the Inter-American treaty of reciprocal assistance, opened for signature at Rio de Janeiro September 2, 1947, see Department of State Treaties and Other International Acts Series No. 1838, or 21 UNTS 77.



This matter was the subject of studies made in 1945 and 1946 by the Joint Chiefs of Staff who recommended, in May 1946, that international agreement on the above-mentioned principles be secured. At that time the Department of State concurred in principle to this proposal but recommended that negotiations be deferred until after the conclusion of the Rio Treaty.

It would appear that the way is now clear to go ahead with an attempt to obtain agreement on these principles. In view of the nature of the forthcoming Ninth International Conference of American States at Bogotá,<sup>2</sup> which I understand will create a permanent Inter-American Defense Council and consider topics concerning collective defense, it seems appropriate that consideration be given to the conclusion of a general agreement concerning Hemispheric bases at that conference.

The desirability, from a military point of view, of obtaining early agreement on this subject, is reaffirmed. Consequently, it is urged that the Department of State take action to place the subject of base agreements on the agenda for the Bogotá Conference.

Sincerely,

JAMES FORRESTAL

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<sup>2</sup> For documentation on this subject, see pp. 1 ff.

710.J/1-2148

*The Secretary of State to the Secretary of Defense (Forrestal)*

SECRET

WASHINGTON, February 3, 1948.

MY DEAR MR. SECRETARY: I received your letter of January 21, 1948 advocating that consideration be given, at the coming Ninth International Conference of American States at Bogotá, to the conclusion of an agreement concerning the extension of rights to military bases among the American republics.

The Committee representing the Departments of State, Army, Navy and Air Force on matters regarding the Ninth International Conference at Bogotá has been informally considering the proposal advanced in your letter during recent weeks. To this group, representatives of the Department of State have explained the interest of this Department in the acquisition of rights, such as those of transit and technical stop by aircraft or vessels, and our complete willingness to proceed along any lines that may effectively achieve such rights.

The view has been expressed, however, that it is extremely doubtful whether the Conference at Bogotá will provide an appropriate opportunity in which to negotiate a reciprocal, multilateral agreement on this subject. The Conference at Bogotá is not considered by the Latin American states as having a military character. Aside from the in-

clusion of certain principles of collective defense, taken from the Treaty of Rio de Janeiro, in the proposed Organic Pact of the Inter-American System, the only item on the agenda of a military nature is the drafting of provisions for an Inter-American Defense Council which will permanently supplant the present Inter-American Defense Board. Major emphasis at this Conference will be placed upon the reorganization of the Inter-American System, and upon the conclusion of an agreement on inter-American economic cooperation. The Delegations of the Latin American countries to the Bogotá Conference will no doubt consist primarily of political rather than military representatives.

In view of the controversial political nature of questions concerning bases, as was clearly evidenced by the action of the Assembly of Panama in rejecting the proposed Treaty with the United States, it is likely that the introduction of the subject of bases into the Conference would result in extensive and widely publicized political debate with a poor prospect of this Government's being able to achieve the conclusion of an agreement such as the National Military Establishment desires. A failure on our part to succeed in our initiative would, I believe, seriously hamper rather than facilitate the acquisition of rights for the United States on a bilateral basis.

It has also been pointed out to representatives of the Service Departments that quite apart from the problem of the extension of base rights to the United States by the Latin American countries, a very large problem arises in connection with any proposal that the Latin American countries reciprocally extend such rights to each other. There are at present several situations involving international tension among the American republics which make it highly likely that several Latin American countries would refuse to sign an agreement which would enable aircraft of a neighboring country freely to use their bases.

In the light of the above considerations, the Department has informally proposed to representatives of the Service Departments that they submit for consideration by the Committee dealing with the Bogotá Conference a draft resolution which would concern itself only with the extension of reciprocal rights to bases in time of emergency, leaving the extension of rights during peacetime, for the present, to further bilateral negotiations between the United States and other American republics. The Department has indicated that it will be glad to initiate further bilateral negotiations without delay for this purpose.

Pending further consideration of the subject as indicated above, the Department is not taking any steps to have the subject of bases placed upon the agenda of the Conference. For your information the agenda of the Conference was fixed several months ago by action of the Gov-

erning Board of the Pan American Union and the addition of new subjects will require the favorable vote of two-thirds of the delegates at the organizing session of the Conference.

Please be assured that the Department approaches this problem with every desire to facilitate the achievement of the objective which you outline in your letter and that our conclusion with respect to the discussion of the subject of bases at the Bogotá Conference will be reached solely on the basis of whether such a step would in fact contribute to the development of the defense arrangements which this government desires.

Faithfully yours,

G. C. MARSHALL

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710.J/1-2148

*The Secretary of State to the Secretary of Defense (Forrestal)*

SECRET

WASHINGTON, March 4, 1948.

MY DEAR MR. SECRETARY: I refer to your letter of January 21, 1948 and my reply of February 3, 1948, concerning the possibility of introducing at the Ninth International Conference of American States a resolution concerning the extension of reciprocal rights of transit and technical stop and naval anchorage at military and naval bases in the American republics.

Upon further consideration of the factors mentioned in my letter of February 3, the Department of State has concluded that it would be unwise for the American Delegation to propose any resolution on the subject of bases at the Bogotá Conference. It is our judgment that there would be little chance of the adoption of a resolution on bases at the Conference that would be satisfactory to this Government, and the rejection of a resolution advanced by our delegation would impair efforts that we might wish to make later on to obtain rights of importance to the United States in other American republics.

Moreover, it is felt that injection of an issue touching upon so many political tensions would adversely affect the success of the entire Conference from the viewpoint of the United States. It is, of course, of prime importance to this Government that the Bogotá Conference terminate successfully and constitute a further step in the cementing of inter-American relations at this difficult stage of world affairs. I am confident that you will agree that achievement of this basic objective must not be jeopardized.

This Department stands ready to consider opening bilateral negotiations for specific rights for the use of operational facilities in other American republics whenever the Defense Establishment believes that such a move is desirable. Moreover, in view of the action already taken



in the Inter-American Defense Board, it is believed that this Government can continue to build the foundation for an adequate inter-American base system through further action by the Board or the Inter-American Defense Council which will succeed it.

Faithfully yours,

G. C. MARSHALL

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810.24/4-2748

*Memorandum by the Policy Committee on Arms and Armaments*

SECRET

[WASHINGTON,] April 27, 1948.

PCA PD-10 (Revised)

Subject: Policy of the Department of State with Respect to Arms, Ammunition, and Implements of War for the Other American Republics <sup>1</sup>

*Decision:*

COMMERCIAL SALES

1. It shall hereafter be the policy of the Department to approve commercial transfers or sales of arms, ammunition, and implements of war to all other American Republics provided that such sales or transfers are determined to come within the following criteria already established for authorization of transfers to foreign countries:

(a) If the transfer is determined to be reasonable and necessary to enable a country to maintain internal order in the reasonable and legitimate exercise of constituted authority, or

(b) If the transfer is determined to be reasonable and necessary to enable a country to provide for and to exercise its right of self-defense against armed attack, a right recognized in Article 51 of the Charter of the United Nations,<sup>2</sup>

(c) If the transfer is determined to be reasonable and necessary to assist a country to discharge its international responsibilities for (1) furnishing contingents to the Security Council pursuant to Article 43 of the Charter of the United Nations and (2) carrying out military occupation in enemy or ex-enemy territory;

and provided that such sales or transfers will not jeopardize the U.S. objectives with respect to arms standardization in the American Republics.

2. It is understood that exceptions to the above may be made:

(a) For reasons of military security, or

(b) Under special circumstances involving serious political disturbances or strained international relations.

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<sup>1</sup> Adopted at the regular meeting of the Committee, January 30, 1948, and subsequently approved by the Under Secretary (Lovett).

<sup>2</sup> Department of State Treaty Series No. 993, or 59 Stat. 1031.

## GOVERNMENT SALES

1. Pending action by Congress on the Inter-American Military Cooperation Bill,<sup>3</sup> no further sales of Government arms should be promoted nor any programs initiated or approved. Any requests for Government arms received from Latin American governments should, however, be reviewed by the Department and approved if considered reasonable and necessary, provided such action is not considered to affect adversely the position of the Executive vis-à-vis the Congress with respect to the requested enactment of the Inter-American Military Cooperation Bill.

## GENERAL

1. A quantitative reference to military programs will be considered as only one of the factors bearing upon a decision in any particular case.

2. If and when the pending Inter-American Military Cooperation Bill is approved by the Congress, the Department shall again review and analyze its arms policy with respect to Latin America.

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<sup>3</sup> House Document No. 3836, 80th Cong., 1st sess., "The Inter-American Military Cooperation Act"; for text of draft bill submitted to the Congress by President Truman on May 23, 1947, see Department of State *Bulletin*, June 8, 1947, p. 1121.

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810.20 Defense/5-2648

*The Secretary of State to Representative Charles A. Eaton*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, May 26, 1948.

DEAR DR. EATON: I am most anxious that the Congress give consideration during this session to the proposed Inter-American Military Cooperation Act which the President submitted to the Congress on May 23, 1947.

A similar proposal was submitted to the 79th Congress but died with that Congress after it had been reported favorably by the Committee on Foreign Affairs of the House of Representatives. H. R. 3836 was reported favorably by the House Foreign Affairs Committee last spring but no further action has been taken on it.

As you know, a number of Latin American countries have, since the war, delayed purchases of military equipment from outside of the hemisphere in the expectation that the United States would be able to make available to them surplus military equipment to the end that there may be a standardization of the arms of the United States and the Latin American countries. I have recently received a telegram from Santiago indicating that the General Staff of the Chilean Navy

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<sup>1</sup> Chairman of the Foreign Affairs Committee, House of Representatives.

is considering the purchase of the British cruiser, *Ajax*, if arrangements cannot be made for the procurement of a similar vessel from the United States. I have asked that the Chief of the Chilean Naval General Staff be requested to defer purchase of a non-standard vessel until after adjournment of the Congress in the hope that it will be possible for us to make a surplus naval vessel available to Chile.

Although I understand that surplus military supplies which would be made available to the Latin American countries under the terms of the proposed legislation are not as extensive as they were a year ago, there are still considerable quantities of supplies which would be available. My attention has been called particularly to a number of naval vessels, including some eight cruisers and 36 destroyer escorts. The expense of maintaining these vessels even though in storage is considerable. The same is also true with reference to certain older type aircraft that are in storage as well as with reference to certain types of arms and ammunition.

The proposed legislation, of course, is not confined to providing for the transfer of surplus military equipment to Latin American countries. It also authorizes giving instruction and training to military or naval personnel of those countries and rendering them other assistance necessary to their defense.

I am sending a similar letter to Senator Vandenberg.

I have discussed this matter with Secretary Forrestal who is most anxious that we move ahead with this legislation during this session of Congress.

Faithfully yours,

GEORGE C. MARSHALL

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810.20 Defense/6-448

*Memorandum by the Assistant Secretary of State for Political Affairs  
(Armour) to the Secretary of State*<sup>1</sup>

[WASHINGTON,] June 4, 1948.

Subject: Inter-American Military Cooperation Bill

I wish to report that it is highly unlikely that action can be obtained by the Congress on legislation to authorize transfer of military equipment to Latin American countries.

Despite the letters which you addressed to Senator Vandenberg and Congressman Eaton on May 26, requesting action this session, it appears that no effort will be made to act on this Bill in either the Senate or the House unless you personally speak to Senator Vandenberg and Mr. Eaton, or unless the White House intervenes in further support of the Bill. Even in this event the short time remaining leaves it extremely doubtful whether favorable action can be taken.

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<sup>1</sup> Initialed: G[eorge] C. M[arshall].



Failure to obtain such legislation will in effect prohibit any further transfers of arms to Latin American countries for the time being. Equipment required by the Latin American countries no longer exists in surplus, or if it does, maintenance parts are unavailable. The Navy is forbidden by law to transfer destroyers and cruisers which it has reserved for transfer to Latin America. Only by extreme efforts, including an appeal to the President, is the Department of the Army able to make available to Argentina, at a high cost, equipment requested urgently by the Argentine War Minister during his visit here.

As an alternative to obtaining action on the Inter-American Military Cooperation Bill, ARA has suggested the possibility of getting a brief amendment to Public Resolution No. 83 of 1940. This Resolution authorized the transfer to the American republics at cost of coast defense and anti-aircraft equipment. The amendment would broaden the authorization to cover any type of military equipment needed for standardization in the American States, and would specifically authorize the transfer of any naval vessels found to be excess to the needs of the United States. It is the opinion of the Counselor's office that even this simplified form of legislation would require a personal appeal from you to Senator Vandenberg and Congressman Eaton to receive sympathetic attention. Since the proposed amendment to Resolution 83 of 1940 would have to go through the Committees of both the House and Senate, and take its chances on favorable action in the rush of business at the end of the session, the likelihood of favorable action on it is also considered to be very small.<sup>2</sup>

NORMAN ARMOUR

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<sup>2</sup>In a memorandum of June 16 to the Chief of the Division of Special Inter-American Affairs (Dreier), not printed, the Counselor (Bohlen) reported that Dr. Eaton had discouraged any attempt to get the 1940 resolution amended as he felt there would be no possibility whatsoever of favorable action before adjournment of the Congress (810.20 Defense/6-448).

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810.20 Defense/6-2248

*The Secretary of Defense (Forrestal) to the Secretary of State*

SECRET

WASHINGTON, 22 June 1948.

DEAR MR. SECRETARY: I am forwarding herewith, for your information, a copy of a memorandum which was recently prepared by the Joint Chiefs of Staff in anticipation of the probable passage of the proposed Inter-American Military Cooperation Act (H.R. 3836, 80th Congress, 1st Session). Although this legislation was not adopted during the last session of Congress, I believe that the conclusions reached by the Joint Chiefs of Staff will nevertheless be of considerable interest to your Department. Moreover, in view of the possible enactment dur-

ing the next Congress of some such law, these conclusions should serve as a useful guide in considering problems of Latin American aid.

Sincerely yours,

JAMES FORRESTAL

[Enclosure]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense  
(Forrestal)*

SECRET

WASHINGTON, 19 June 1948.

Subject: Implementation of the Inter-American Military Cooperation Act

In accordance with a memorandum to them from the Chief of Staff, United States Air Force, the Joint Chiefs of Staff have studied the question of levels of implementation of the proposed Inter-American Military Cooperation Act (H.R. 3836, 80th Congress, 1st Session) on which action is scheduled in the current session.

As a result of the study the Joint Chiefs of Staff have concluded that:

*a.* It is not practicable for the Joint Chiefs of Staff to establish levels of implementation under the proposed Inter-American Military Cooperation Act or the phasing of such implementation until combined Western Hemisphere defense schemes have been approved for planning purposes.

*b.* With due consideration to the factors involved, it is practicable and desirable for the United States to furnish, as an interim measure, some such munitions and services as might be made available to the other American states in the interest of military cooperation.

*c.* Since levels of implementation under the proposed Inter-American Military Cooperation Act cannot at this time be related to combined Western Hemisphere defense plans, it would appear appropriate for the Joint Chiefs of Staff in implementation of the policy in SWNCC 4/10<sup>1</sup> approved by the President (SWNCC 4/12) to indicate general guidance, from the military point of view, to the Department of State and the National Military Establishment for interim provision of munitions and services to the other American states.

Accordingly, they would suggest that if and when the bill is enacted, bilateral conversations with each of the American states be held as soon thereafter as practicable to bring the Bilateral Staff Conversations of 1945 up to date and to indicate to those governments the extent to which the United States would make available arms and equipment based on the following general considerations:

*a.* That it should be the policy of the National Military Establishment, through its several departments, to provide to the other Ameri-

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<sup>1</sup> *Foreign Relations*, 1945, vol. ix, p. 251.

can states munitions (with maintenance and replacement parts) and training in the use and upkeep of such munitions.

b. That, as an interim measure and in advance of the formulation of a Western Hemisphere defense plan, programs for initial implementation should be established by the several military departments leading to the standardization and modernization of the present armed forces of the other American states by :

(1) Replacement of obsolete and non-United States arms and equipment within each of the armed forces required to effect standardization and modernization of these forces without materially disturbing relative strengths among countries and with consideration being given to the recommendations contained in the Bilateral Staff Conversations of 1945.

(2) Reorganization in accordance with United States organization practices, and supply of other munitions accordingly coupled with indoctrination, training and duty under United States supervision.

c. That the amounts of munitions provided and/or procured by the United States services for export under these programs should be allocated to each American state by each military department after consideration of the following factors :

(1) Availability of such munitions for this purpose in light of our requirements and commitments, both present and prospective (for example, aid to Western Europe).

(2) Capability of each American state to compensate the United States for what it receives.

(3) Ability of each American state to properly utilize and care for the munitions requested.

(4) Desirability, from the standpoint of United States security, of improving current status of the armed forces of specific American states.

(5) That in implementation of the Canada-United States Basic Security Plan, Canada should receive first consideration among the other American states.

(6) Approval by the Department of State as to the political and economic desirability of each state's interim program.

d. That these programs for initial implementation should be amenable to modification to meet political and military conditions as they arise.

The Joint Chiefs of Staff request that, if you concur, these views be furnished the Secretaries of State, the Army, the Navy, and the Air Force for their general guidance.

For the Joint Chiefs of Staff :  
WILLIAM D. LEAHY,  
*Fleet Admiral, U.S. Navy,*  
*Chief of Staff to the*  
*Commander in Chief of the Armed Forces*



810.24/7-3048

*The Secretary of State to Diplomatic Representatives in the  
American Republics*

CONFIDENTIAL

WASHINGTON, July 30, 1948.

SIRS: This Government has received numerous requests from Latin American governments for United States military and naval equipment additional to the equipment already supplied them under the "interim program". To the end of standardizing armaments by providing Latin American governments with reasonable and necessary amounts of military equipment, the State and Service Departments have made every effort to comply with these requests. Following adjournment of Congress, which took no action last session on the Inter-American Military Cooperation Bill, the situation was reviewed by the State and Service Departments. It has become clear that because both adequate legislative authority and further surplus supplies are lacking, the transfer of any more armaments from government sources to the other American republics will be virtually impossible, until Congress passes necessary legislation.

The so-called "interim program" of arms transfers, first offered to other American republics in the early part of 1946,<sup>1</sup> will be completed for all countries. Certain actual deliveries under this program are still to be made, but all commitments therefor have been entered into. Practically all of the transfers in the "interim program" were made under authority of the Surplus Property Act of 1944.<sup>2</sup> During the last days of its recent session, however, Congress incorporated in the Supplemental Independent Offices Appropriation Act of 1949 a provision<sup>3</sup> which prevents the further disposal as surplus of any property located in the United States which was not declared surplus prior to the approval of that Act (June 30, 1948). Thus no further transfers of arms can be made from United States stocks under the Surplus Property Act of 1944.

The situation for each of the Service Departments is described below:

*Department of the Army*

In the absence of new legislation, and in view of the virtual termination of the surplus property program as described above, the Department of the Army has no adequate authority to transfer military equipment to Latin American countries. In a few instances, the

<sup>1</sup> For documentation on this subject, see *Foreign Relations*, 1946, vol. XI, pp. 86 ff.

<sup>2</sup> 58 Stat. 765.

<sup>3</sup> Public Law 862, June 30, 1948, 62 Stat. 1202.

Department of the Army has made equipment available to Latin American countries under Public Resolution 83, of 1940.<sup>4</sup> However, equipment sold under this legislation is limited to coastal defense and anti-aircraft items and must be sold at cost.

Even if adequate legislation were presently available, the Department of the Army would not have equipment excess to its own needs available in balanced units for transfer to Latin American countries. This shortage is attributable to: (a) the current requirements of the United States Army, which is being expanded in accordance with the wishes of Congress; (b) the dissipation of surplus equipment in overseas areas; and (c) the requirements of countries for which programs have been specifically authorized by Congress, such as Greece and Turkey.

#### *Department of the Navy*

The Department of the Navy has retained in its custody certain excess naval vessels (cruisers, destroyer escorts) earmarked for Latin American countries, but is without legislative authority permitting their sale. With regard to other naval equipment, the Department of the Navy is able to provide armament for ships which American governments may contract to have built in private shipyards in the United States, and is able to provide ammunition and maintenance material which cannot be readily procured from commercial sources, for United States vessels obtained under the "interim program". This equipment must be sold under Public Resolution 83, of 1940, at no cost to the United States.

#### *Department of the Air Force*

No adequate legislative authority is available to the Department of the Air Force to transfer equipment to Latin American countries. In any event, only a limited number of aircraft would be available for Latin American countries at this time. Practically none of these planes are in flying condition and they are without spare parts. Inasmuch as the Department of the Air Force can neither recondition the planes nor provide spare parts, it is questionable whether they should be sold to Latin American countries for any purpose other than cannibalization. The Air Force does have available some excess ground equipment for air fields.

In summary, there is virtually no prospect of additional sales of military equipment by this Government in the near future. Although the State Department and the Service Departments will continue to press the matter, it is difficult to venture a prediction as to when Con-

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<sup>4</sup> Approved June 15, 1940; 54 Stat. 396. For documentation on this subject, see *Foreign Relations*, 1940, vol. v, pp. 1 ff.

gress will enact legislation authorizing arms transfers to Latin American countries. The only important source of United States military equipment open to Latin American governments, until such time as Congress may enact legislation enabling further sales by this Government, is the commercial market in the United States. In this regard, the Departments of the Army, Navy, and Air Force, in coordination with their own procurement, will use their good offices to facilitate the negotiation and execution of contracts between the other American government and United States commercial sources.

The foregoing is transmitted for your background, in order that you may make clear to the government to which you are accredited, should requests for military equipment be made, the unlikelihood of any such material being obtained from United States Government stocks. You may, in your discretion, inform the government that should it wish to acquire military or naval equipment from commercial sources in the United States, the Department will, in exercising its responsibility for the control of munitions traffic, give sympathetic consideration to requests for licenses to export reasonable amounts of material needed for the national self-defense. You should bear in mind, however, that the Department cannot give blanket authorization in advance for the export of any and all armaments which foreign countries may desire.

The Department is aware of the unfavorable effect which the situation outlined above may have on the continuation of United States military, naval, and air missions in other American republics. Should officials of the government to which you are accredited intimate that the continuation of any such missions was no longer considered desirable in view of the difficulty in obtaining further equipment, you are requested to express the view that such missions constitute a valuable form of international cooperation which this Government has every desire to continue, that this Government has done all in its power to make definite amounts of military equipment available at extremely attractive prices (through the interim program), and that normal commercial channels in the United States for the acquisition of such equipment remain open to the government to which you are accredited on the same terms as to any other government.

You are requested to bring this instruction to the attention of your military, naval, and air attachés, and of the chiefs of any United States military, naval, or air force missions assigned to the government to which you are accredited. The situation described above is under continued study by the Department and you will be informed of any further developments.

Very truly yours,

For the Secretary of State:  
CHARLES E. SAITZMAN



STATUS OF AMERICAN REPUBLIC LEND-LEASE ACCOUNTS, AUGUST 31, 1948<sup>1</sup>

Country	Statement of account		Charges		Net	Balance Due U.S.
	LL Number	Date	Gross			
Bolivia	16	6- 2-48	\$5, 036, 546. 81		\$915, 644. 22	\$652, 130. 71
Brazil	13	12-19-47	Settlement	4-15-48		30, 000, 000. 00
Chile	17	6- 4-48	20, 221, 916. 71		6, 066, 575. 02	15, 575. 02
Colombia	16	6- 2-48	7, 858, 701. 33		3, 492, 406. 85	1, 092, 406. 85
Costa Rica	16	6- 2-48	155, 595. 32		84, 877. 25	84, 877. 25
Cuba	16	6- 2-48	4, 630, 151. 27		2, 700, 767. 23	300, 767. 23
Dom. Republic	16	6- 2-48	950, 562. 11		534, 691. 19	92, 691. 19
Ecuador	17	7-14-48	6, 085, 970. 42		214, 834. 75	2, 834. 75
El Salvador	14	11-24-47	877, 319. 13		481, 472. 73	181, 472. 73
Guatemala	13	12- 1-47	Offset Arrangement			0
Haiti	15	3-19-48	Settlement 3-30-48			0
Honduras	15	3-15-48	368, 249. 77		34, 089. 44	989. 45
Mexico	17	6- 4-48	36, 583, 907. 06		12, 072, 689. 33	12, 079, 854. 41
Nicaragua	16	6- 4-48	883, 663. 39		611, 760. 16	511, 760. 16
Paraguay	15	3-19-48	1, 789, 799. 30		48, 860. 97	15, 860. 97
Peru	17	6- 8-48	16, 633, 423. 50		6, 882, 910. 64	2, 882, 910. 64
Uruguay	16	6- 2-48	5, 481, 328. 11		2, 514, 833. 35	3, 786, 049. 16
Venezuela	16	6- 2-48	3, 902, 763. 09		1, 756, 243. 40	411, 243. 40
Total:					\$44, 539, 423. 60	

<sup>1</sup> Copy transmitted to the Department in letter of September 10, 1948 by the Commissioner of Accounts, Treasury Department (Maxwell), not printed (810.24/9-1048).

820.24/10-548

*The Director of the Office of American Republic Affairs (Daniels) to  
the Secretary of State*

CONFIDENTIAL

WASHINGTON, October 5, 1948.

Subject: Policy regarding transfer of arms to Latin American countries from United States Government sources.

*Problem:*

Should the Department seek enactment by the next Congress of the Inter-American Military Cooperation Bill?

*Background:*

1. The Inter-American Military Cooperation Bill would authorize the President to enter into agreements with other American States providing for the training of foreign nationals by the United States Defense Establishment, and for the transfer of United States military equipment to those countries. There is no question over the desirability of the training program, the principal issue having to do with the transfer of armaments.

2. The proposed Bill would apply to Canada as well as to Latin America. It is understood that the urgent and special needs of Canada are to be discussed in a separate memorandum being prepared by the Office of European Affairs for submission to your office. This paper deals with the problem from the viewpoint of Latin America.

3. Moderate amounts of arms were sold to the Latin American countries under the Surplus Property Act. The use of this Act for that purpose has been terminated by Congress, and surplus supplies have largely been exhausted, except for certain larger naval vessels. Latin American countries are being informed that under present conditions, virtually the only source of arms in this country is the commercial market, and the Service Departments are preparing to render special technical assistance to them in their procurement problems. Licenses are granted for the export of commercially procured arms, under existing Departmental policy, so long as the amounts are considered "reasonable and necessary" for the self-defense of the purchasing country.

4. The Inter-American Military Cooperation Bill was drafted on the assumption that a large amount of surplus military equipment would be available for transfer to Latin American countries at a low cost or in exchange for present non-American equipment in their possession. Under this program standardization was to be achieved without disrupting relative military strengths of the Latin American countries. Since surpluses have now been largely exhausted (except for certain larger naval vessels) the exchange feature of the proposed

bill is rendered virtually inoperative, at least for the present, and Latin American governments would be required to pay approximately full procurement cost for any equipment they acquired from this Government under the terms of the Bill. The higher costs would be expected to restrict the total amounts of arms purchased, and they will obviously make achievement of military standardization in the Americas slower and more difficult. Higher costs will also tend to increase the differences in armed strength between the wealthier and poorer countries.

*Main considerations:*

The following principal considerations bear upon this problem:

1. It is desirable, from a military viewpoint, to have the Latin Americans acquire U.S. equipment, and use U.S. military missions, in preference to those of other countries.

2. It is possible that Congress may be requested to enact legislation authorizing arms transfers to European countries. In that event there might be advantage in consolidating all such proposals in one law, rather than requesting a separate law for Latin America. Enactment of general legislation would provide the Executive with the necessary authority to transfer arms to Latin America, leaving discretion as to the actual use of that authority in the light of future world conditions and relative needs of different areas.

3. Representatives of the Service Departments continue to favor the Inter-American Military Cooperation Bill, pointing out that the training program would be facilitated thereby, and suggesting that at some future time it may again become possible to utilize the provisions regarding transfer of surplus equipment.

4. From a political viewpoint, it is questionable whether the United States Government should become directly involved in sales of arms to Latin American Governments if, owing to high prices, there is little possibility of avoiding a disproportionate arming of wealthier nations. Under Lend Lease, varying rates of payment were accorded the Latin American countries to enable all to participate; under the original standardization program cheap surplus prices were to achieve the same objective. Neither of these conditions would now apply to the Inter-American Military Cooperation Bill unless Congress were willing to subsidize arms sales.

*Recommendation:*

The following course of action is recommended:

1. To cover the needs of the American republics for military equipment and training in any broad legislation, such as Title VI, which may be proposed to Congress for the purpose of providing military assistance to foreign nations.



2. In the event that broad military assistance legislation is not enacted, to seek enactment of the Inter-American Military Cooperation Bill, possibly deleting or modifying, as being no longer pertinent, the clause referring to exchange of non-standard arms for United States equipment.

PAUL C. DANIELS

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820.24/10-1948

*Memorandum by Mr. Carl M. Marcy, Assistant Legislative Counsel,  
Office of the Counselor, to the Acting Secretary of State*

CONFIDENTIAL

[WASHINGTON,] October 19, 1948.

Subject: Underlying draft policy memorandum regarding the transfer of arms to Latin America.

The attached memorandum (from Mr. Daniels, ARA, to the Secretary)<sup>1</sup> recommends that military assistance for the American republics be made a part of any broad military aid legislation that may be presented to Congress. In the event such legislation is not enacted ARA recommends that separate legislation be sought for the Americas.

This office does not believe that any action should be taken at this time to approve or reject the ARA recommendations. The arms recommendations for the American republics should not be considered except in the context of the total military aid picture, including military aid for Western Europe and for China.

Congress will certainly want to know the total military aid picture regardless of whether Western Europe, China and the American republics are included in separate legislation. Congress will want to know the overall cost and the justifications for each segment of military aid.

At the present time the following items of "military-foreign policy" legislation are pending in one stage or another at one place or another:

- (1) Arms Legislation for Western Europe.
- (2) Latin-American Arms Legislation.
- (3) Greek-Turkish Military Aid.
- (4) Military Aid for China.
- (5) Canadian Arms Problems.
- (6) Admission of Aliens to Military Schools in the United States  
(To be sponsored by N.M.E.).
- (7) Authority for American Military Missions to Assist Foreign Governments (To be sponsored by N.M.E.).

The interrelation of these programs to each other, not only substantively, but with respect to their presentation to Congress, is such that no final decisions can be made with respect to them and this office

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<sup>1</sup> *Supra.*

cannot effectively coordinate their presentation until the nature and scope of the program of military aid for Western Europe is known.

It is recommended, therefore, that for the present, policy decisions with respect to the program for military aid to the American republics be held in abeyance, but that prior to final decision on legislation for military aid to Western Europe, all proposed legislation in the military aid field be reviewed to determine:

- (1) extent to which it might be included in the Western European measure;
- (2) total amounts involved;
- (3) importance to over-all foreign policy objectives.<sup>2</sup>

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<sup>2</sup> A memorandum of January 5, 1949 by Mr. George O. Spencer, of the Division of Special Inter-American Affairs, to the Legal Adviser (Gross), transmitted Mr. Daniels' memorandum of October 5 (to the Secretary) for possible use in connection with the overall study then being made of arms legislation; no action had been taken by the Secretary on this memorandum in 1948 because it was felt that any decision made on the question of arms for Latin America would necessarily involve a consideration of the programs being planned for other areas (820.24/1-549).

# WITHDRAWAL OF THE UNITED STATES AIR FORCE FROM BASES IN ECUADOR, GUATEMALA, AND NICARAGUA

## ECUADOR

811.24522/11-448

*Memorandum by the Director, Office of American Republic Affairs  
(Daniels) to the Under Secretary of State (Lovett)*

[Extract]

CONFIDENTIAL

WASHINGTON, November 16, 1948.

Subject: Ecuador: Galapagos Air Base. Request for Continued Use  
of Tug and Barge

*Background:* Under the broad terms of a secret wartime defense agreement with Ecuador signed in February 1942, and in accordance with an informal verbal agreement with respect to the establishment of a base on the Galapagos Islands, we constructed and operated a military base at Seymour Island during the war.<sup>1</sup> No formal agreement for the establishment or operation of the base was ever concluded.

In 1946 the Ecuadoran Government formally requested our withdrawal and the base was turned over to Ecuador on July 1, 1946.<sup>2</sup> At the time of our withdrawal the Ecuadoran Government agreed that certain U. S. Air Force personnel could remain on the base as technicians for the purpose of training Ecuadoran personnel. Under this temporary arrangement the Air Force continued to maintain an Air Warning Station at Seymour Island. In June 1948 the Air Force decided to withdraw their remaining personnel from Seymour Island, for reasons of economy. The Ecuadoran Government thereupon requested that it be allowed to purchase, at as reasonable a price as could be arranged, the equipment used on the base which is necessary for its continued operation by Ecuadoran forces.

Pursuant to the Department's recommendation, the Department of the Air Force instructed the Caribbean Air Command to declare surplus to the Foreign Liquidation Commissioner for sale to Ecuador most of the equipment which Ecuador sought to purchase.

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<sup>1</sup> For texts of agreements and other documentation relating to this subject, see *Foreign Relations*, 1942, vol. vi, pp. 371-379.

<sup>2</sup> For documentation on this subject, see *ibid.*, 1946, vol. xi, pp. 836 ff.; see also *ibid.*, 1947, vol. viii, pp. 676 ff.



811.24522/12-1448

*The Ambassador in Ecuador (Simmons) to the Secretary of State*

No. 984

QUITO, December 14, 1948.

SIR: With reference to this Embassy's telegrams nos. 284 of December 4 and 287 of December 8, 1948,<sup>1</sup> I have the honor to report that the contract covering the sale to the Ecuadoran Government of the surplus equipment on the Seymour Base in the Galapagos Islands was signed this morning. The Minister of Defense, Manuel Diaz Granados, acted on behalf of the Ecuadoran Government and Major George A. Peck, Jr., signed as Special Representative for Latin America and the Antilles of the Office of the Foreign Liquidation Commissioner.

Preliminary arrangements for the transfer were made with the Minister of Defense on December 4 in accordance with a telegram received the same day from Major Peck. These provided for a price of US \$5,425.24, representing only five percent of total declared cost, and an order from the Ecuadoran Government authorizing the application to the sale of an Ecuadoran Air Force credit with the Foreign Liquidation Commissioner, Balboa, of US \$5,547.

This Embassy's note no. 357 of December 6, 1948<sup>2</sup> to the Foreign Office recapitulated the foregoing and added, on the basis of available information, that "unfortunately, it has not been possible to include the tug and barges to which reference is made in Your Excellency's notes nos. 196 and 199 owing to the shortage of such vessels in the United States Army". (See Embassy despatch no. 934 of November 26, 1948).<sup>2</sup>

The response of the Foreign Office in its note no. 206 of December 8, 1948<sup>2</sup> expressed the appreciation of the Ecuadoran Government for "the manner in which the Government of the United States has acceded to the desires of the Government of Ecuador with regard to the acquisition of the equipment necessary for the maintenance of the Seymour Base", and stated that the Minister of Defense had been authorized to negotiate the contract on behalf of the Ecuadoran Government. . . .

According to Major Donnelly, the U.S.A.F. contemplates evacuating the Seymour Base between December 21 and 23. This was considered satisfactory by Comandante Sanchez, who stated that an Ecuadoran naval vessel would be dispatched to Seymour Island on or about December 19 to accept possession. He promised to advise Major Donnelly through the Embassy of the exact date on which the Ecua-

<sup>1</sup> Neither printed<sup>2</sup> Not printed.

doran naval vessel would arrive at the Base. He spoke for the Minister in expressing the opinion that a transfer ceremony would not be necessary since the Seymour Base had already been returned to Ecuador in 1946. . . .

Respectfully yours,

JOHN F. SIMMONS

### GUATEMALA

811.24514/2-1848

#### *The Ambassador in Guatemala (Kyle) to the Secretary of State*

SECRET  
No. 97

GUATEMALA, February 18, 1948.

SIR: I have the honor to report the visit today of Mr. J. A. Cheek, Chief, Miami Field Office, Department of Army, Corps of Engineers, to confer with the Embassy and the local manager of Pan American Airways with respect to the disposal of ADP airport facilities at Puerto Barrios and Guatemala City which were constructed by Pan American Airways for the account of the United States Government.

The permission of the Guatemalan Government for improvement of the Puerto Barrios airfield under the ADP program was contained in a Foreign Office note dated May 22, 1942, the text of which was transmitted to the Department under cover of Despatch No. 2891 of May 25, 1942.<sup>1</sup> This document states that the facilities will be subject to agreements entered into at a later date—i.e., the subsequent secret Lend-Lease agreement of November 16, 1942,<sup>2</sup> which provides that all works carried out on Guatemalan territory at the initiative and cost of the United States Government becomes the exclusive property of Guatemala, with the exception of organic armament and certain equipment of the United States forces.

The ADP improvements to the La Aurora (Guatemala City) airport were constructed by Pan American Airways under the authority of their 1930 operating contract which provides that, upon termination of the concession, the disposition of all improvements and facilities constructed at the expense of Pan American Airways shall be the subject of negotiations between the company and the Guatemalan Government. This contract expires in 1950.

In informal discussions with Mr. Cheek, the Embassy took the position that since the U. S. Army Air Base at Puerto Barrios has, in fact, already been turned over to the Guatemalan Government<sup>3</sup> (see

<sup>1</sup> Neither printed.

<sup>2</sup> *Foreign Relations*, 1942, vol. VI, p. 444.

<sup>3</sup> See letter of August 27, 1943 by the President of Guatemala (Ubico) to President Roosevelt, *ibid.*, 1943, vol. VI, p. 345.

Embassy's despatch No. 357 of August 28, 1943, entitled, "Transfer of United States Army Base at Puerto Barrios to Guatemalan Forces" <sup>4</sup>), the only question which now arises is in regard to the disposal of such movable equipment now in the possession of Pan American Airways which clearly does not revert to Guatemala under the terms of the Secret Lend-Lease agreement signed November 16, 1942. (See Embassy's despatch No. 3378 of November 17, 1942, Enclosure No. 4, Article No. 4. <sup>4</sup>) Mr. Cheek indicated that it probably would be feasible to liquidate the Puerto Barrios situation by authorizing Pan American Airways to dispose of these movable items at fair value, which is estimated to be between \$5,000 and \$10,000. The Guatemalan Government is understood to be interested in purchasing this equipment; and the Embassy believes the matter can best be liquidated on this basis.

With respect to the installations constructed under the ADP program by Pan American Airways at La Aurora airfield at Guatemala City, the Embassy's chief concern is that nothing be done in this connection which will disturb the *status quo* of our Air Base Agreement with Guatemala, <sup>5</sup> or the operations of the United States Army Air Base at La Aurora, pending final determination in Washington as to the ultimate disposition of this Air Base. (In this connection, reference is made to the Embassy's despatch No. 45 of January 21, 1948, <sup>4</sup> recommending early termination of the Air Base Agreement and evacuation of the remaining United States Armed Forces from Guatemala.) Therefore, it was suggested that in any arrangements effected transferring the ADP inventory at La Aurora, provision be made for the maintenance of present facilities and services by Pan American Airways for the duration of the Air Base Agreement.

Continued operation of the airport lighting system by Pan American Airways for the duration of the occupancy by the United States Army of La Aurora Air Base is considered particularly desirable for obvious reasons. While this naturally involves some expense to Pan American Airways, it is hoped ways and means can be found to compensate the company for this service.

From the standpoint of relations with Guatemala it is felt that liquidation of the ADP program in this country is secondary in importance, and should either be held in abeyance pending termination of the Air Base Agreement or handled in such a manner as not to risk

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<sup>4</sup> Not printed.

<sup>5</sup> See memorandum of agreement between the United States and the Republic of Guatemala, November 16, 1942, *Foreign Relations*, 1942, vol. vi, p. 448.



disturbing the *status quo* with respect to our occupancy of the Guatemala City and San José bases.

The Military Attaché concurs in the foregoing.

Respectfully yours,

EDWIN J. KYLE

811.24514/2-1848 : Airgram

*The Secretary of State to the Embassy in Guatemala*

SECRET

WASHINGTON, May 4, 1948.

A-94. Reference Embassy's despatch 97 of February 18, 1948 concerning disposal of ADP airfield at Guatemala City. After discussion with officers of ATC, Engineers Corps, and Air Force, the Department is satisfied that proposed liquidation of ADP program La Aurora airport can be carried out in a manner that will in no way disturb *status quo* of occupancy of Guatemala City and San José airbases, and has accordingly authorized Department of Army to proceed with negotiations with PAA. Arrangements will presumably result in a settlement satisfactory to PAA, which will be in a position to show full ownership inventoried equipment if its claim should ever be challenged by Guatemalan Government or if this aspect should come up for discussion at time of termination PAA's operating concession in 1950. Like ADP agreement itself, the liquidation proceedings and inventory transfer will be conducted in secret.<sup>1</sup>

MARSHALL

<sup>1</sup> In telegram 157, April 20, 1949, 11 a. m., not printed, the Ambassador in Guatemala (Patterson) stated:

"San José airbase transferred Guatemala April 19 in simple but impressive ceremony (Embdes 189 April 7 [not printed]). Initial press reaction very good. Col. Arana, in accepting behalf Guatemala Government, stated US could depend on Guatemala support in defense hemisphere and democracy should future occasion arise." (811.24514/4-2049)

In telegram 495, October 31, 1949, 3 p. m., not printed, the Chargé in Guatemala (Wells) reported that Guatemala City USAF sub base had been transferred to Guatemalan Government on that day with appropriate ceremonies and all personnel evacuated (811.24514/10-3149).

## NICARAGUA

811.24517/10-1548

*The Ambassador in Nicaragua (Shaw) to the Secretary of State*

[Extracts]

CONFIDENTIAL

MANAGUA, October 15, 1948.

No. 487

SIR: I have the honor to refer to my telegrams Nos. 254 and 264 of October 6 and 15<sup>1</sup> respectively concerning information which has

<sup>1</sup> Neither printed.

come to my attention indicating that a decision has been made by the United States Air Force to close the 5712th Air Squadron Base at Mercedes Air Field, Managua, Nicaragua, and to turn over the building and such permanent installations as are provided for in the contract with the Government of Nicaragua.

On October 12 a group of Air Force officers arrived in Managua from Albrook Air Force Base, Canal Zone, and informed me they were instructed to make an inspection of the installations and facilities, and to advise me that a decision had been made to effectively abandon the Base, and to discuss with me appropriate procedures in connection with making this change, advising the Government of Nicaragua, and delivering certain fixed installations to such Government. The reason given for the above decision was lack of appropriations by the United States Congress to continue maintenance.

Colonel Ladd informed me that he had been instructed to say that a decision had been made to abandon the Base and to effectively suspend all services except weather reporting. He desired to have my comment on the basic agreement by virtue of which the Base existed, and appropriate procedures for turning the building and fixed installations over to the Nicaraguan Government, as well as removing certain other property and personnel from Managua by cargo plane.

The agreement of June 2, 1942,<sup>2</sup> is very general in its terms and provides only that any buildings erected upon the land granted to the Base and any "fixed installations" would, when the Base was abandoned (within six months after the signing of the peace treaties) be returned to and become the property of the Government of Nicaragua.

The Air Force plans to leave a force of nine men, sufficient for three men on three eight-hour shifts, to operate the weather observation service. Their communications on this subject are to be received and forwarded by the facilities of the Pan American Airways. The Pan American Airways has these facilities and, I am informed, has indicated its willingness to cooperate in the manner indicated. The Airways naturally are interested in these weather reports themselves. The Air Force personnel mentioned will live in civilian quarters in the city. The Air Force will leave Government transportation (two jeeps or other vehicles) with them. I suggested that these men immediately, but unostentatiously, move out of barracks to find quarters and establish themselves in the city.

Respectfully yours,

GEO. P. SHAW

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<sup>2</sup> Not printed.

811.24517/3-2549 : Telegram

*The Ambassador in Nicaragua (Shaw) to the Secretary of State*

SECRET

MANAGUA, March 25, 1949—2 p. m.

93. I propose deliver note Foreign Office tomorrow Saturday March 19 [26] advising evacuation USAF air base Managua. Deptels 51 and 53 March 18 and 24.<sup>1</sup>

Consider it essential we mention briefly in general terms our desire retain rights overflight and transit, as well as maintenance weather observation contingent Managua.<sup>2</sup> This will not prejudice negotiation base requirements and military air rights which may later be recommended by JCS.

. . . . .  
Sent Department 93, repeated Guatemala, Panama.

SHAW

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<sup>1</sup> Neither printed.

<sup>2</sup> In its note of March 30, 1949, transmitted to the Department in despatch 295, April 7, not printed, the Nicaraguan Foreign Office agreed to the evacuation procedure and expressed its willingness to permit the United States to preserve these rights and privileges (811.24517/4-749).

The evacuation of the Base was completed in a short but impressive ceremony on April 19, attended by high Nicaraguan and American officials, according to a report by the Chargé in Nicaragua (Williams), despatch 313, April 20, 1949, not printed (811.24517/4-2049).



# CONCERN OF THE UNITED STATES FOR ASSURING AN ADEQUATE SUPPLY OF STRATEGIC MATERIALS IN THE WESTERN HEMISPHERE

S11.20 Defense (M)/2-1748

*Memorandum by the Assistant Chief of the International Resources  
Division (Anderson) to the Director of the Office of American  
Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] March 12, 1948.

Subject: Latin American Supplies of Strategic Materials.

I regret that other (and heavy) demands on my office have prevented an earlier response to your memo to Mr. Cale,<sup>1</sup> dated February 17, 1948<sup>2</sup> requesting an account of materials which might be procured for the stock pile from the other American Republics. It is now my understanding that the National Security Resources Board in cooperation with the personnel of the Munitions Board and the Bureau of Mines is engaged in a comprehensive study of the stock piling program, including a review of the potentialities of the Latin American countries as contributors to the strategic stock pile. (I further understand that the NSRB will transmit to the Department a statement indicating whatever particular barriers may be inhibiting the increased procurement of materials from these sources.)

In view of the initiation of these studies, this division will not attempt, other than a general—and admittedly sketchy—review of the problem at this time.

I attach, with the anticipation that the material will have some value in connection with your preparations for the Bogotá conference, the following:

1. A list on a country basis, of the principal strategic materials produced in the Latin American republics.
2. Brief comments regarding the problems relating to certain strategic material production situations.
3. Estimates of the amounts of stock pile funds which might be expended in 1947 on the principal strategic materials produced by Latin American countries, assuming that there is a marked loosening of supply with respect to copper and lead during the interim.

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<sup>1</sup> Edward G. Cale, Associate Chief, International Resources Division.

<sup>2</sup> Not printed.

## Appendix I

## LIST OF PRINCIPAL STRATEGIC MATERIALS

<i>Countries</i>	<i>Principal Strategic Materials</i>
1. Argentina	Quebracho (extract) *Lead *Beryl (production now dormant) Tung Oil Tungsten (concentrates) Zinc (in concentrates)
2. Bolivia	Antimony (in ores) *Copper (in ores and concentrates) *Lead (in ores and concentrates) Zinc (in concentrates) Tungsten concentrates *Tin (in concentrates)
3. Brazil†	*Beryl *Manganese ore *Mica, block and film Quartz Tungsten
4. Chile	*Copper Iodine *Manganese ore Sperm Oil
5. Colombia	Platinum (crude alloy)
6. Cuba	Manganese ore Copper (in concentrates) Chromite, metallurgical grade
7. Mexico	Antimony (in ores) *Copper *Lead Zinc (metal and concentrates)
8. Paraguay	Quebracho (extract)
9. Peru	Antimony (in ores) *Copper *Lead Vanadium (in oxide) *Zinc (in concentrates)

## Appendix II

## COMMENTS ON CERTAIN MATERIAL SITUATIONS

*Antimony*—Chinese production is rapidly increasing and good progress is being made toward stock pile objectives. Procurement of

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\*Materials which Munitions Board is anxious to purchase when supply permits. [Footnote in the source text.]

†Monazite omitted because of atomic energy implications. [Footnote in the source text.]

about 4000 tons annually for the next three years may mean about 2000-2500 tons per year from Latin America.

*Beryl—Argentina* applied an embargo on exports over a year ago causing almost complete cessation of beryl production. Prospects of securing removal of embargo regarded as very unfavorable. *Brazil* continues production at a moderate rate but U.S. industry and stock pile could absorb up to 2000 tons additional per year for next five years.

*Chromite Ore*—The objective for refractory grades has been fulfilled. A limited quantity of higher-grade Cuban ores are a possible procurement item for the stock pile.

*Copper and Lead*—Indications are that the Munitions Board will buy any foreseeable surplus of these metals which may become available in Latin America during the next five years. Total purchases may total \$200,000,000 in the case of copper and \$75,000,000 for lead. These two items are, by far, the most significant with respect to Latin American strategic material production contributions.

*Iodine*—Two-thirds of the total objective is filled. A limited amount may be purchased from Chile in future years.

*Quebracho Extract*—World source is River Plate area where production is approx. 80% from *Argentina*, 20% from *Paraguay*. Stock pile purchases are currently about 10% of total exports of 350,000 tons annually and may be expected to continue at that a somewhat decreased rate for the next two years to attain objectives.

*Tantalite*—A large part of the objective will be attained through expected surplus transfers.

*Tin*—At present, stock pile purchases are not possible because of a world-wide shortage. This shortage is expected to continue through this year and possibly through 1949. *Bolivian* production of concentrates, in part, is being supplied to the U.S. tin smelter under a RFC contract with Bolivia which extends until December 31, 1949.

*Tung Oil*—New sources developed in the U.S. have increased production to point where strategic nature of commodity is open to question. Munitions Board not purchasing pending review of situation.

*Tungsten*—Due to transfer of large stocks to stock pile from RFC surplus, Munitions Board will defer purchase of tungsten for several years—and then will expect to buy at prices that may be uneconomical to most Latin American producers.

*Vanadium*—The objective has been substantially attained through recent domestic purchases.

*Zinc*—With the exception of *Mexico*, the Latin American countries produce no metallic zinc. Zinc concentrates are in abundant supply and the Munitions Board is probably not interested in purchases other than those of high-grade slab zinc.



## Appendix III

INDICATION OF AMOUNTS OF STOCK PILE FUNDS WHICH MIGHT BE EXPENDED ON PROCUREMENT OF CERTAIN  
SELECTED STRATEGIC MATERIALS PRODUCED BY LATIN AMERICAN COUNTRIES  
(Annually for Number of Years Shown)

<i>Material</i>	<i>Sources</i>	<i>Estimated Quantity Annually</i>	<i>Estimated Value Annually</i>	<i>Yrs.</i>
Antimony	Bolivia, Mexico, Peru	1000 sh. tons	\$600,000	2
Beryl	Brazil	1000 sh. tons	\$200,000	5
	Argentina (?)			
Copper	Chile	50,000-100,000 sh. tons	\$20,000,000 to \$40,000,000	5
	Peru	5,000 sh. tons	\$2,000,000	5
	Mexico	5,000 sh. tons	\$2,000,000	5
Lead	Mexico	20,000-50,000 sh. tons	\$6,000,000 to \$15,000,000	5
	Peru	5,000 sh. tons	\$1,500,000	5
Manganese ore	Brazil	50,000 l. tons	\$1,500,000	5
Mica	Brazil	1,000,000 lbs.	\$4,000,000	4
Quartz	Brazil	700,000 lbs.	\$5,000,000	2
Quebracho	Argentina	20,000 l. tons	\$4,000,000	2
	Paraguay	5,000 l. tons	\$1,000,000	2
Sperm Oil	Chile	1,000,000 lbs.	\$250,000	4
Zinc	Mexico	5,000 sh. tons	\$1,200,000	5
Totals			(Upper range) \$78,250,000 (Lower range) \$49,250,000	

811.20 Defense (M) /2-1748

*Memorandum by the Director of the Office of American Republic Affairs (Daniels) to the Assistant Chief of the Division of River Plate Affairs (Atwood)*

CONFIDENTIAL

[WASHINGTON,] March 17, 1948.

In connection with the attached memorandum of March 12<sup>1</sup> from IR, Mr. Anderson, and specifically Appendix II thereof, please take up with the respective country desk officers and Division Chiefs the possibility of the Department's taking immediate action at this time to overcome any obstacles which may exist to the fullest possible procurement, and if necessary, production of the strategic materials we need.

It may be that there are specific instances in one country or another where, through some sort of diplomatic representations, we might further the objectives of this program.<sup>2</sup>

I suggest you let Mr. Anderson know what action, if any, is taken pursuant to this suggestion.

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<sup>1</sup> *Supra*.

<sup>2</sup> In reply, Mr. Atwood informed Mr. Daniels, in memorandum of March 25, not printed, that no immediate action (diplomatic representations) was called for at that time with regard to the obstacles which existed to the procurement and production of strategic materials, and he suggested certain factors that might increase production: (1) construction and rehabilitation of roads and railroads; (2) augmenting power facilities, (3) revision of certain legislation in such fields as labor, investment, and exchange control, and (4) supply of materials in short supply (811.20 Defense (M) /3-2548).

810.20 Defense/3-1748

*The Secretary of Defense (Forrestal) to the Secretary of State*

CONFIDENTIAL

WASHINGTON, March 17, 1948.

DEAR MR. SECRETARY: Receipt is acknowledged of your letter of 4 March 1948<sup>1</sup> outlining your plans with respect to strategic resources in so far as the Ninth International Conference of American States<sup>2</sup> is concerned.

Recent discussions between representatives of the National Military Establishment and Ambassador Pawley<sup>3</sup> have revealed, what we have

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<sup>1</sup> Not printed.

<sup>2</sup> For documentation on the Conference at Bogotá, March 30-May 2, 1948, see pp. 1 ff. Secretary Marshall informed Secretary Forrestal in his letter of March 4 that the Department of State felt that it would be unwise for the American Delegation at Bogotá to introduce any resolution on strategic resources, since the Basic Agreement on Economic Cooperation, which the Conference was to conclude, would provide an adequate multilateral basis for the development of strategic resources, and for the conclusion of any bilateral agreements that might be desirable (810.20 Defense/12-247).

<sup>3</sup> William D. Pawley, Ambassador in Brazil; member of the United States Delegation, Bogotá Conference.

assumed to be, the Department of State's program for making loans available to Latin American countries in conjunction with the elimination of existing discriminatory laws toward foreign capital on the part of the countries concerned. In exchange for this latter concession, it is my understanding that efforts will be made to obtain Congressional action to grant corporations operating in Latin America tax incentives such as were included in the China Trade Act.<sup>4</sup>

Ambassador Pawley and other representatives of your Department have expressed the feeling that the introduction of specific resolutions emphasizing the security aspects of strategic materials might operate to jeopardize the program. This opinion has been reaffirmed in your letter to me of 4 March 1948. Consequently, the National Military Establishment will no longer press for the adoption of a strategic resources resolution at Bogotá. Because of the immediate urgency of the petroleum problem,<sup>5</sup> I would like to see the resolution that you inclosed with your letter adopted at Bogotá and hope that conditions at the conference will be such as to permit its introduction.

In my letter to you on 1 December 1947,<sup>6</sup> I suggested the formation of a special interdepartmental study group on strategic materials to work out detailed programs for Latin America much as is being done in connection with the European Recovery Program. The decision not to introduce any resolution at Bogotá on strategic resources other than petroleum does not alter, in my opinion, the requirement for the early formation of such a group. It is my understanding that a more detailed suggestion along this line has recently been made to Mr. Thorp<sup>7</sup> of your Department by the Chairman of the Munitions Board. Also all data in the hands of the Munitions Board concerning requirements and possibilities in Latin America are currently being made available to your Department.

I am becoming increasingly concerned about the problem of assurance of availability of all materials essential for a war economy, whether presently listed for stockpiling or not. Your interest and cooperation in this matter of vital importance to the security of the nation are appreciated.

Sincerely yours,

JAMES FORRESTAL

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<sup>4</sup> For text of the China Trade Act, approved September 19, 1922, see 42 Stat. 849.

<sup>5</sup> For documentation on United States interest in petroleum resources in the Western Hemisphere, see pp. 243 ff.

<sup>6</sup> Not printed.

<sup>7</sup> Willard L. Thorp, Assistant Secretary of State for Economic Affairs.



811.20 Defense (M) / 3-2548

*Memorandum by the Assistant Chief (Atwood) to the Chief (Tewksbury) of the Division of River Plate Affairs*

[WASHINGTON,] April 9, 1948.

Subject: Strategic Resources Discussions with Mr. Winant<sup>1</sup>

As per Mr. Daniels' memorandum to me of March 25<sup>2</sup> I had a long visit with Mr. Winant on March 29 and went over the whole problem of obtaining strategic resources from Latin America. As requested by Mr. Daniels I assured Mr. Winant that we were ready, willing, and anxious to take any action that would assist the U.S. Government in procuring such resources, but at the present time it did not appear that diplomatic representations were in order. We talked over the possibilities of taking definite action at this time, and we concluded that the NSRB and the Munitions Board should come to some agreement as to what commodities they really wanted to purchase, how much and at what price. Following such decisions the NSRB and the Munitions Board should discuss the problems with private U.S. industries engaged in the production of strategic resources in Latin America to discover the major obstacles to increased production. If it was found that diplomatic representations were considered necessary the NSRB and/or the Munitions Board would so notify the Department.

A meeting was called on April 6 by Mr. Winant to discuss the development and procurement of manganese and chrome supplies. The agenda of that meeting is attached.<sup>3</sup> Please notice especially the first paragraph of the introductory statement. My contribution to the discussion was limited to outlining the State Department's policy regarding the desirability of having private enterprise take the lead in the production of strategic resources rather than individual government to government operation. I also stressed the fact that the Department was anxious to assist in any way possible when specific cases had been decided upon. The report on the above committee meeting was prepared by Mr. Winant and a copy of it is also attached.<sup>4</sup>

R. S. ATWOOD

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<sup>1</sup> Frederick Winant, Consultant, National Security Resources Board.

<sup>2</sup> In his March 25 memorandum, not printed, Mr. Daniels said he wished to be sure Mr. Winant knew that the Department had been taking, and would continue to take, a serious and constructive interest in his problem, which was likewise the Department's problem (811.20 Defense (M) / 3-2548).

<sup>3</sup> Not printed.

<sup>4</sup> Not printed in entirety; see summary, attached.

[Attachment—Extract]

## REPORT OF TASK GROUP ON MANGANESE AND CHROME PROCUREMENT

CONFIDENTIAL

WASHINGTON, April 7, 1948.

## SUMMARY

Typical area problems which tend to restrict increased U.S. imports were discussed and counteracting programs considered.

Brazil, because of several general factors and its current and large potential production of manganese, was selected as the area for chief discussion. Following a briefer discussion of the problems presented by other areas, it was generally agreed :

(i) that private enterprise offered the most practical and immediate approach to the general problem and that the industry should be given every encouragement to assume the responsibility of providing the necessary increase in manganese and chrome supplies for both U.S. consumption and stockpiling;

(ii) that increased production be given practical encouragement through such incentives as firm, and where suitable long term, contracts for stockpile purchases;

(iii) that appropriate assistance be given by government in such matters as necessary mining supplies and equipment, and practical assistance through diplomatic channels;

(iv) that the services of the Office of Metals Reserve within the R.F.C., be requested under certain circumstances;

(v) that, if the private companies either fail or hesitate to proceed with the undertaking in any of the ore areas, more direct government action be taken through expanding the operations of the Office of Metals Reserve including where necessary enabling legislation by Congress.

It was agreed further that NSRB would contact several steel companies to ascertain what action they consider necessary by government to pave the way for increased supplies and that at the same time, the Munitions Board and Bureau of Federal Supply would prepare recommendations concerning a more flexible purchasing program with particular emphasis on long term contractual arrangements.

FREDERICK WINANT

*Consultant, Foreign Economics*

810.20 Defense/3-1748

*The Acting Secretary of State to the Secretary of Defense  
(Forrestal)*

CONFIDENTIAL

WASHINGTON, April 15, 1948.

DEAR MR. SECRETARY: In reply to your letter of March 17 in which you referred to the need for an interdepartmental study group on

strategic materials to work out detailed programs, it is my understanding that Mr. Thorp is working out, with the Chairman of the Munitions Board, plans for the establishment of a Working Group on Problems of Strategic Material Availabilities and Procurement with which the existing Working Group on Strategic Materials under the European Recovery Program would be merged.<sup>1</sup>

The Department does, as you have indicated, hope to bring about the liberalization or removal of discriminatory laws toward foreign capital in Latin American countries and to encourage international investment of United States capital through tax incentives. With this in mind the Delegation at Bogotá will probably introduce the following statement for inclusion in the Basic Inter-American Economic Agreement: <sup>2</sup>

"Each of the American States, within the framework of its own institutions, will seek to liberalize its tax laws as they apply to income from foreign sources and to avoid discriminatory and unduly burdensome taxation, in order to stimulate the free international flow of private investment for economic developmental purposes without, however, creating international avenues for tax avoidance. Each State will also seek the speedy consummation of bilateral agreements to prevent double taxation."

The only loan program contemplated at the moment involving Government funds is the extension of the lending authority of the Export-Import Bank by \$500 million.<sup>3</sup>

Sincerely yours,

ROBERT A. LOVETT

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<sup>1</sup> The Strategic Materials Working Group, a subcommittee of the Executive Committee on Economic Foreign Policy, was established by interagency agreement in April 1948 to consider problems of access to, and availability of, strategic materials of foreign origin and to make recommendations to appropriate agencies in connection with procurement for the stockpile. The Department of State was represented on the Committee and provided its Chairman. For a report of June 21, 1948 of the Strategic Materials Working Group with respect to strategic materials urgently needed for stockpiling, see the documentation on United States National Security Policy in volume I.

<sup>2</sup> See Chapter IV, Private Investments, of the Economic Agreement of Bogotá, in the report of the United States Delegation at the Bogotá Conference (Department of State publication 3263), p. 207.

<sup>3</sup> For the President's message to the Congress on April 8, 1948 in which he recommended an increase in the lending authority of the Export-Import Bank to finance economic development in the other American Republics, see the Department of State *Bulletin*, April 25, 1948, p. 548.



810.50 Buenos Aires/12-148

*Memorandum of Telephone Conversation, by Mr. H. Gerald Smith,  
Adviser, Office of Financial and Development Policy*<sup>1</sup>

CONFIDENTIAL

[WASHINGTON,] December 1, 1948.

Subject: Action Regarding Strategic Materials at the Buenos Aires  
Economic Conference<sup>2</sup>

Participants: H. Gerald Smith, OFD  
Edwin M. Martin, ITP<sup>3</sup>

In response to a question which I raised earlier with him, and following a brief conversation which I had had with Mr. Kennedy, IR,<sup>4</sup> Mr. Martin telephoned to say that it seemed wiser to maintain the position which we had taken prior to the Ninth International Conference of American States at Bogotá regarding strategic materials, i.e., that the United States should not take any initiative in endeavoring to obtain commitments from the Latin American Governments at a multilateral meeting of this character regarding the exploitation of strategic materials which would be of importance to the United States. This decision was based on the belief that the immediate reaction of the Latin American countries to United States' requests for their cooperation in the exploitation of strategic materials would be to inquire what assurances or commitments the United States was prepared to make with regard to terms of purchase, financial assistance in development of such materials, et cetera. This was particularly true in the case of economically marginal production, which was the situation in many cases of such materials in Latin America, and it seemed clear that the United States, certainly on any multilateral basis, was not able at this time to make commitments regarding the exploitation or purchase of strategic materials in Latin America which were commercially unprofitable.

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<sup>1</sup> Copy addressed to the Director, Office of American Republic Affairs (Daniels).

<sup>2</sup> For documentation on the proposed Conference, see pp. 73 ff.

<sup>3</sup> Acting Director of the Office of International Trade Policy.

<sup>4</sup> Donald D. Kennedy, Chief of the International Resources Division.

## INTEREST OF THE UNITED STATES IN PETROLEUM RESOURCES WITH RESPECT TO WESTERN HEMI- SPHERE DEFENSE

810.6363/3-2648: Circular telegram

*The Secretary of State to Diplomatic Representatives in Certain  
American Republics*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, March 26, 1948—4 a. m.

U.S. does not plan initiate discussions on petroleum at Bogotá<sup>2</sup> but will be prepared discuss subject if introduced by any of other Latin American countries. Dept recognizes need promptly to increase available petroleum supplies Americas and U.S. delegation at its discretion will take such steps at Conference as seem appropriate assist in achieving this goal.

Every opportunity will be used before, during and after Conference to clarify to governments other American States through appropriate channels importance of petroleum to national and Hemisphere security and to economies all countries, especially as basis for industrialization, better standards of living, and improvement foreign exchange position.

Importance petroleum to Hemisphere security already has been presented by U.S. to Inter-American Defense Board and joint Brazilian-U.S. Defense Commission and will be presented to joint Mexican-U.S. and Canadian-U.S. Defense Commissions at earliest opportunity. Copy paper presented being forwarded air pouch.<sup>3</sup>

Stress will be placed on private petroleum development, Venezuela being outstanding example. With respect certain other Latin American countries it is hoped some impetus can be given through appropriate channels to revision legal structures so as make possible private foreign capital operation on non-discriminatory commercially competitive basis.

Crux of oil development in Latin America is problem of financing. American foreign economic policy has always emphasized desirability

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<sup>1</sup> Sent to the Embassies in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela.

<sup>2</sup> Discussions on this subject were informal at the Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948. For documentation on the Conference, see pp. 1 ff.

<sup>3</sup> Memorandum by the Executive Committee on Economic Foreign Policy, March 23, and Policy Decision, April 6, 1948, not printed.

of private trade and private financing where at all feasible. In case petroleum development, this distinctly preferable as it is demonstrated that development will proceed more rapidly and opportunities for success greater if carried on under private management. Furthermore, American oil cos interested in development Latin America and large amounts capital available. Availability conditioned, however, on adequate safeguards against excessive national action.

Requests for materials necessary to carry on petroleum operations will be given sympathetic consideration with a view toward supplying necessary material to the extent possible. But it will not be possible make concrete commitments on this subject at Bogotá. Question of supplies of materials for industries other than petroleum as *quid pro quos* for petroleum development would so complicate and prolong any multilateral discussions that such questions will be avoided if possible.

It is expected that at Bogotá only general economic principles will be discussed, the details being left for bilateral discussions which may take place after the major conference, although no reference should be made to bilateral discussion this time.

MARSHALL

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810.6363/4-1448

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*

CONFIDENTIAL

WASHINGTON, April 14, 1948.

Subject: Consideration of Western Hemisphere Petroleum Supply Problem by the Inter-American Defense Board

The Acting Secretary of State encloses for the information of the Embassy certain papers on petroleum showing the consideration that has been given to the petroleum problem of the Western Hemisphere by the Inter-American Defense Board. The papers were made available to the Department by the U.S. Delegation to the Inter-American Defense Board.

The State-Army-Navy-Air Force Coordinating Committee has approved a paper which recommended that every American Embassy in the Western Hemisphere, the Inter-American Defense Board, and all joint defense boards involving the United States and other American States be informed concerning the petroleum supply problem of the hemisphere, especially as regards its security aspects. Enclosure 1 contains the paper which the United States Delegation presented to the Inter-American Defense Board in accordance with the SANACC recommendation. Enclosure 2 indicates the action which the Board has taken.



These enclosures, together with the circular airgram dated February 17, 1948<sup>1</sup> on the general petroleum situation, will bring the Embassy up-to-date on the hemisphere petroleum problem both with respect to its peacetime and security aspects.

[Enclosure 1]

# APPENDIX I OF IADB MINUTES OF FEBRUARY 24, 1948

RESTRICTED

## NECESSITY FOR DEVELOPING ADDITIONAL SUPPLIES OF OIL IN THE WESTERN HEMISPHERE FOR HEMISPHERIC DEFENSE

The provision of adequate supplies of oil for the defense of the Western Hemisphere is one of the most important and difficult problems facing the American nations today.

The result of World War II was a tremendous drain on United States petroleum resources. We completely used up 1 million barrels a day of reserve productive capacity which was available to us at the beginning of the war. During the war, United States average production of crude petroleum increased from 3,606,157 barrels per day to 4,871,099 barrels per day. Since the war, worldwide demand for petroleum has increased to the unprecedented figure of 9,000,000 barrels per day of which 5,600,000 barrels per day or 62% is currently being provided from United States resources.

Between 1939 (prewar) and 1947 (postwar) the relative increase or decrease in proved reserves and daily production of Western Hemisphere countries is as follows: (See Enclosure I)<sup>2</sup>

	<i>Proved Reserves (bbls.)</i>		<i>Daily Production</i>		
United States	Increased	4, 577, 000, 000	Increased	1, 616, 600	B/D
Mexico	Increased	300, 000, 000	Increased	37, 500	"
Venezuela	Increased	5, 500, 000, 000	Increased	622, 000	"
Colombia	Increased	100, 000, 000	Increased	3, 000	"
Peru	Decreased	50, 000, 000	Decreased	2, 000	"
Brazil	Increased	5, 000, 000	Increased	300, 000	"
Argentina	Increased	25, 000, 000	Increased	8, 000	"
Chile					

This means that the United States is expending its non-replaceable petroleum resources at a rate vastly greater than that of any other country or any other oil producing area in the world. What effect is this going to have upon our planning for cooperative defense of the Western Hemisphere?

<sup>1</sup> Not printed.

<sup>2</sup> Enclosure I (an attached table showing the increase in proven petroleum reserves for 1939 to 1947), not printed.

We know that the world peacetime demand is increasing each year. We can safely assume that normal peacetime demand for petroleum is going to increase year by year. We must remember that with each year that passes the increasing use of diesel fuel for railroads, heating oil for homes, tractor fuel for food production and gasoline for trucks and cars is shifting the balance of civilian usage so that loss of it can be classified as non-essential. For this reason, the demand for petroleum products to provide the minimum essential civilian economy will unquestionably be greater than ever before.

We think our planning will reveal that a great number of complicated machines, using vast quantities of petroleum, will be required for the most effective defense of our Hemisphere. Probably our petroleum requirements will be substantially greater than those of World War II. The petroleum demand for ground and Naval forces should be roughly proportionate to that of World War II but not so for the air forces. Jet powered counterparts of World War II fighter planes and bombers use from three to five times as much fuel per hour as the World War II planes. It is entirely probable that we may require more aviation gasoline alone than was required by the entire military establishment in World War II.

When all of the probable requirements for petroleum are added together we have a tremendous figure, in the vicinity of nine to ten million barrels per day. The consequent problem of supply staggers the imagination. What can we do to solve this problem?

According to the best estimates of military and industrial planners, it will not be possible to supply nine to ten million barrels per day from presently known Hemisphere sources. The apparent shortage appears to be in the neighborhood of two to three million barrels per day. All American nations must take coordinated action to help make up this deficit.

In the United States, studies are presently under way by industry planners to appraise the practicability of building up a synthetic petroleum industry, large enough to overcome the deficit indicated above. Studies thus far indicate that because of the enormous amounts of material which must go into synthetic plants, the development of a synthetic petroleum industry adequate to meet our needs would make the present shortage of steel for all purposes, including petroleum development, much more acute.

Geologists consider that there are large quantities of natural petroleum still undiscovered and undeveloped in the Western Hemisphere. The United States is making intensive efforts to develop such resources within its own borders. If all Western Hemisphere nations do likewise we can very probably develop sufficient petroleum resources within our Hemisphere to meet our maximum planning requirements. However,

resolutions by the Bogotá Conference looking toward the development of these resources will not be enough. It will be necessary to push through to final completion actual and concrete measures to make this resource development a matter of accomplishment. Many American States have requested military equipment and other facilities in order to effectuate their share of the hemispheric defense program. Nearly all of this equipment is oil consuming. The United States does not have the resources to provide petroleum products to maintain this equipment in action.

It is therefore imperative that every American nation take those measures necessary to bring about a development of its petroleum resources so that each can assume its full share of responsibility should it become necessary to implement our planning for defense of our Hemisphere.

[Enclosure 2]

INTER-AMERICAN DEFENSE BOARD—3077; APPENDIX 1 OF PLENARY  
SESSION 133, 16 MARCH 1948

CONFIDENTIAL

Resolution XXVI

PETROLEUM IN THE DEFENSE OF THE WESTERN HEMISPHERE

WHEREAS:

A. The principles set forth in the Act of Chapultepec and in the Inter-American Treaty of Reciprocal Assistance<sup>3</sup> establish the bases on which the common defense of the Western Hemisphere is to be founded;

B. It is understood that preparedness in peacetime is an insurance against the consequences of war;

C. Such preparation, in order to be efficient, must be on a collective basis, and coordinated among all the nations of the Western Hemisphere;

D. The availability of petroleum in war is of primary importance for success in military operations;

E. The present crisis in petroleum in the American Hemisphere does not assure the petroleum resources necessary for Hemisphere defense; and

F. The development in production from new sources of petroleum, to the point of satisfying the required needs, demands relatively long periods of time;

The Inter-American Defense Board in its Plenary Session 133, 16 March 1948,

<sup>3</sup> Department of State Treaties and Other International Acts Series (TIAS) 1543, or 60 Stat. 1831, and TIAS 1838, or 21 UNTS 77, respectively.



## RESOLVES:

1. To place on record the vital importance of petroleum resources in the common defense of the Western Hemisphere;
2. To record the fact that the present production of petroleum in the American Hemisphere is already insufficient to meet the needs of the military, and that it is, accordingly, absolutely necessary to establish, at the earliest possible moment, measures to resolve the crisis:
3. To recommend to the Governments of the American Republics that they adopt, with the urgency they deem necessary, the following measures to procure the petroleum required by the common defense of the Western Hemisphere:
  - a) To increase, as much as possible, the present production of petroleum.
  - b) To intensify the study of the petroleum potential reserve and the planning for its development.
  - c) To put into effect measures to obtain production from new sources of petroleum.
  - d) To encourage the establishment of refineries, stocks of petroleum, and means of transportation.
  - e) To adopt adequate measures for the conservation of petroleum in every phase of national life.
  - f) To consider, in an inter-American conference, agreements leading to the establishment of inter-American cooperation in the development of petroleum production, distribution, mutual economic, technical, and industrial aid, and other measures to assure obtaining the petroleum necessary for the defense of the Western Hemisphere, and for the further development of the nations themselves.

M. B. Ridgway  
*Lieutenant General, USA*  
*Chairman*

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[Here follows an explanatory statement.]

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811.6363/7-648

*The Secretary of State to Diplomatic Representatives in the American Republics*

WASHINGTON, July 6, 1948.

The Secretary of State encloses for the Mission's information a copy of a report<sup>1</sup> of the investigation of petroleum in relation to national defense conducted by the Special Subcommittee on Petroleum, Committee of the Armed Services, House of Representatives, usually known as the "Dewey Short Committee".

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<sup>1</sup> Not printed.

The report contains much valuable information relating to the oil industry and pertinent to the Department's responsibilities in this field, and it is recommended that it be read by all officers whose work deals with petroleum.

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S11.6363/8-1948

*The Secretary of State to Diplomatic and Consular Officers in the American Republics*

WASHINGTON, August 19, 1948.

The Secretary of State refers to the Department's circular airgram of February 17, 1948, 8:40 a. m.<sup>1</sup> and to an article entitled "Current and Prospective World-Wide Petroleum Situation" which was published in the Department of State *Bulletin* dated March 28, 1948, (Vol. XVIII, No. 456, pages 426 and 427).

In view of the continuing importance of the world petroleum situation, it is desired to emphasize, in connection with the statements cited above, two points which will be of value to American diplomatic and consular officers in any discussions which they may have at their posts regarding the petroleum situation:

1. On March 8, 1948, the United States representative to the Inter-American Economic and Social Council presented to the Council, at a plenary session, the statement published in the Department of State *Bulletin* of March 28, 1948, cited above. As all the American republics are represented on the Council, the presentation of the United States statement to that body may properly be considered as its presentation to the governments of all the American republics.

2. Many countries depend largely on imports to satisfy the needs of their domestic civilian economy, as well as to satisfy the requirements of their military establishments, whether ground, air or naval. Should world production decline or should important sources of petroleum now available to world trade be cut off, the repercussions in these countries would be serious, notwithstanding the best efforts of the United States to attempt to meet their minimum needs. Accordingly, the problem of stimulating new petroleum production in the Western Hemisphere is a matter which is considered to be of great and direct interest to all the American republics and not solely to those countries where important deposits are believed to exist.

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<sup>1</sup> Not printed.

810.50 Rio de Janeiro/10-2248

*The Acting Secretary of State to Diplomatic Representatives in  
Certain American Republics*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, [October 13, 1948.]

DISCUSSION OF PETROLEUM AT MEETING OF U.S. ECONOMIC OFFICERS  
IN RIO DE JANEIRO NOVEMBER 1 TO NOVEMBER 6

The Acting Secretary of State refers to the circular airgram of September 20, 1948<sup>2</sup> concerning the meeting of U.S. Economic Officers in Rio de Janeiro November 1 to November 6, and encloses a paper on petroleum for the Embassy's consideration in connection with that meeting.

Petroleum was not included on the agenda of the meeting for a general discussion on the assumption that the interest in this subject was limited to those Embassies in countries with an important existing or prospective oil industry. Petroleum is of great importance, however, to certain Latin American countries. In addition, the oil of Latin America is vital to the security of the United States. For these reasons it is considered desirable that petroleum be the subject of discussion in at least one meeting of the interested economic officers, and that in view of the possible limited interest in this subject that such meeting be an informal evening session. The enclosed paper is submitted as basis for that discussion. It is being transmitted to those Embassies considered to have a significant interest in the problem of petroleum.

It is suggested that the Embassy representative at the petroleum meeting be prepared to give a brief report on the petroleum industry and petroleum problems of the country to which he is accredited. . . .

Following the Rio meeting, the Department desires from the Embassy a report giving its considered analysis of the petroleum industry and petroleum problems of the country to which it is accredited. . . .

The Department will use this report, along with those from other Embassies, in its re-evaluation of Latin American petroleum problems and United States policy toward oil development in the Western Hemisphere.

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<sup>1</sup> Forwarded under Form DS-4 to the Embassies in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela.

<sup>2</sup> Not printed.



[Enclosure]

## PETROLEUM\*

## WORLD SUPPLY AND DEMAND SITUATION

During the thirties the United States was very fortunate in that oil was discovered at a much greater rate than it was consumed. In order to promote conservation and restrict production to market demand for this natural resource, most of the oil producing states controlled the rate of flow of the wells at a level below their maximum efficient rate. On a country-wide basis the difference between the actual rate of flow and the maximum efficient rate was more than a million barrels a day at the beginning of World War II. This reserve productive capacity was a valuable asset at the time of our entry in the war, since it enabled production to be expanded to meet all military and minimum essential requirements for petroleum.

In 1938 the daily average production in the United States was approximately  $3\frac{1}{2}$  million barrels a day. Despite the fact that much of the consumption of petroleum not essential to the war effort was eliminated, requirements grew so rapidly that by September 1945 production had reached 4,850,000 barrels a day. This was estimated to be about 300,000 barrels a day in excess of the maximum efficient rate of production. In other words, the United States had used up its cushion of reserve productive capacity and gone beyond by 300,000 barrels a day. The United States was overproducing its oil fields.

United States production has continued to climb rapidly since the war and has now reached close to 5,550,000 barrels daily. This high production rate has been achieved by maintaining a continuous high drilling rate and by producing wells at or near their maximum allowable. Whether or not many oil fields are being overproduced is not known. The industry indicates that the fields are being produced at the maximum efficient rate. All this has happened while the United States changed from a net exporter to a net importer of oil. The daily average net exports in 1938 were 382,000, whereas now the net imports are probably exceeding 100,000 barrels a day.

The United States industry while drawing upon United States petroleum resources as fast as technical and scientific knowledge and sound productive practices will permit, is still short of satisfying domestic requirements. It appears as if the United States will become increasingly dependent on foreign sources of supply to supplement domestic requirements. At the same time the United States is rapidly depleting its petroleum resources. The present known reserve is about

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\*Special Background Paper for Use in Discussion of Petroleum at the Rio de Janeiro Conference of Economic Officers. [Footnote in the source text.]

11 or 12 times as large as the current annual production, and the estimated possible new discoveries may not add more than another 20 or 30 years of supply at best, assuming of course that it could be found and extracted at the desired rate which apparently will not be possible.

Finding and producing costs are rising as it is becoming more difficult to locate new and deeper deposits. United States oil is finding it increasingly difficult to compete with oil from certain large foreign sources where great quantities of low-cost oil already have been found.

Although our domestic peacetime requirements are large and growing rapidly, the Military estimate that United States wartime requirements would be at least 2 million barrels a day higher than present consumption. This estimate also supposes the elimination of non-essential uses—that is non-essential to the conduct of a war. Current domestic requirements alone are now close to 6 million barrels a day. Some appreciation of the magnitude of a sudden increase to 8 million barrels a day may be had when it is realized that the world production today is approximately  $9\frac{1}{4}$  million barrels a day.

Any sudden increase in United States supplies could not be accomplished today unless one or more other countries were deprived of their supplies. The world's petroleum facilities are producing at capacity—including pipe lines, tankers, refineries, and marketing facilities, and the oil fields of the world cannot be operated beyond the capacity of the facilities to handle the oil. At present the only excess productive capacity appears to be in the Middle East. In this area there are probably several hundred thousand barrels a day additional oil available but transportation and refining facilities are not adequate to move and process the oil. In all other areas, the oil fields as well as the facilities for handling the oil are being operated at capacity.

Most of the petroleum reserves of the world are concentrated in four areas, viz., the United States, Venezuela, USSR, and the Middle East. It is estimated that the United States contains about 22 billion barrels of reserve, Venezuela about 8 billions, the USSR 6 to 8 billions, and the Persian Gulf area in the Middle East something over 20 billions. The known reserves of the Middle East are variously estimated at from 20 to 32 billion barrels and the possible undiscovered reserves are estimated to be of the order of 200 to 300 billion barrels. Unquestionably the possibilities of the area are immense.

Very little is known about the reserves or production of the USSR. Only an insignificant proportion of the oil produced there finds its way into international trade.

The Middle East reserves can be expanded rapidly if sufficient material and manpower are available. In fact, it is the only area where the productivity of the known reserves can be greatly increased. The production of the area is now over a million barrels a day and the

known reserves are large enough to support a daily production of possibly 8 million barrels a day. The plans for the area call for a daily production of about 1,800,000 barrels per day by 1952. Such expansion requires the building of new pipe lines, new tankers, and more refineries. The proposed pipe lines from the Persian Gulf to the Mediterranean, if and when completed, would be capable of transporting more than a million barrels a day.

Persian Gulf oil now supplies less than 40 per cent of the petroleum for the European Cooperation Administration countries, but by the end of the four-year program this area is expected to be provided by over 80 per cent of its requirements from the Persian Gulf area.

In the Western Hemisphere both the United States and Venezuela are increasing their output at a relatively rapid rate in order to keep up with increasing demand, but in order to do this a very active exploration campaign must be maintained to find new reserves for development. This is a different story from the Middle East where the reserves already discovered are far more than sufficient to support the planned expansion to two million barrels a day.

The United States is the greatest market in the world for petroleum. The United States requirements are almost twice as much as the rest of the world combined. Although historically the United States has been a large exporter of petroleum, it cannot in the future continue so as it is unable any longer to produce its own requirements. Other countries can look to the United States only for lubricating oils, high test gasolines, and other similar specialty products.

Until recently the United States has been receiving its supplementary supplies from Venezuela, but now small amounts of Middle East oil are being shipped to the United States. To what extent this may increase cannot presently be determined. However, the major portion of European requirements have been shipped from Venezuela, and as that market is gradually taken over by Middle East sources, more and more oil from Venezuela will be diverted into the United States.

It should be noted that Venezuela is the only Latin American country that is producing considerably more than its requirements and thus is a large exporter of petroleum.

Several other Latin American countries produce oil in relatively small amounts and of these only Mexico, Colombia and Peru have small surpluses for export. The requirements of the Latin American countries are growing rapidly and since most of them are importing nations they are steadily increasing the drain on foreign sources of supply. Even Mexico, which is now an exporter to a small extent, may soon become an importer unless new large reserves of petroleum can be developed in the near future.



## HEMISPHERE DEFENSE

Under ordinary peace time conditions the United States would have no concern about adequate petroleum supplies for domestic requirements, as it is recognized that there are sufficient reserves in the Middle East to supplement the world's requirements for the foreseeable future. However, it is because of the vulnerability of the Middle East under emergency conditions that the United States must look to less vulnerable areas for its peace time and emergency supplies, for in an industry as highly specialized as petroleum in all its phases the flow lines must be developed in peace time to be available and ready for expansion in war time. Therefore, a prudent regard for our security requires that the United States must look to increased development of the petroleum resources in the Western Hemisphere.

The United States, Venezuela, and Canada are the only countries in the Western Hemisphere where large-scale exploration and development of new petroleum resources is taking place. But the production of these three countries is inadequate to meet the war time requirements of the Western Hemisphere. The United States and Canada cannot meet their own peace time requirements, and Venezuela's surplus is inadequate to make up the deficit in Western Hemisphere requirements in an emergency.

The Military have been very much concerned about the lack of greater productive capacity in the Western Hemisphere and have repeatedly urged that everything should be done to make the Western Hemisphere self-sufficient in the field of petroleum within the next five years. The time factor makes this a difficult goal to achieve as it takes years to make the preliminary surveys, geological and geophysical studies, discover and develop an oil field.

Our Missions in the Latin American countries have been kept fully informed of the gravity of the problem and of the urgent need to find some way of attaining a substantial expansion of petroleum reserves and production in the Western Hemisphere.†

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† The Missions have been supplied with full information on petroleum developments within the Department, other agencies of the Government, the Congressional hearings, the documents and minutes of the inter-departmental Technical Petroleum Committee and its successor, the International Petroleum Policy Committee. The Missions have been informed also of the study made by the State, War, and Navy Departments in a special inter-departmental subcommittee of State-Army-Navy-Air Force Coordinating Committee on the subject of developing Western Hemisphere oil for Western Hemisphere defense. In connection with petroleum supply for hemispheric defense, the interested Missions have been supplied also with "Excerpts from Minutes of Plenary Session 131, February 24, 1948 of Inter-American Defense Board", a paper prepared by Army-Navy Petroleum Board presented to Inter-American Defense Board February 24, 1948, and to the Joint Brazilian-United States Defense Commission March 10, 1948, entitled "Necessity for Developing Additional Supplies of Oil in the Western Hemisphere for Hemispheric Defense", and Minutes of Plenary Session 133, March 16, 1948 of Inter-American Defense Board. [Footnote in the source text.]

The Military attach such importance to the petroleum situation that members of the Armed Services Petroleum Board have advised their superiors that defense of the Western Hemisphere in the event of an emergency will be dependent upon a substantial expansion of Western Hemisphere petroleum resources within the next few years.

[Here follows a series of studies on oil problems in Mexico, Venezuela, Colombia, Peru, Brazil, Bolivia, Chile, Argentina, and Ecuador.]

#### AREA OF DISCUSSION

A general resume of the petroleum situation in the Latin American countries appears to indicate the following :

1. A number of the Latin American countries appear to have good possibilities for the discovery of large petroleum reserves.
2. The security of the Western Hemisphere requires that steps be taken immediately to bring about an expansion of reserves in the Western Hemisphere with the view toward increasing its productive capacity by at least 2 million barrels per day within the next five years.
3. The most efficient method for achieving rapid expansion of petroleum resources is by private industry, and, conversely, probably the least effective method is by outright unfettered loans to the Latin American Governments for this purpose.
4. There appears to be a strong trend toward nationalization of the petroleum industry in the Latin American countries. . . .
5. It begins to appear that traditional private enterprise operations in the petroleum industry may not be possible in a number of Latin American countries, and that, if so, such operations cannot be relied upon in those countries for the needed expansion in petroleum reserves and production in the Western Hemisphere. If traditional private enterprise operations are not possible in this important area, what measures, if any, must be taken to facilitate oil exploration and production on some other basis?

[Here follows a list of topics for discussion.]

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810.6363/12-2948 : Circular airgram

*The Acting Secretary of State to Diplomatic Representatives in  
Certain American Republics*<sup>1</sup>

WASHINGTON, December 29, 1948—8 : 35 a. m.

Subject: Recent Press Reports and Official Comments on U.S. Government Oil Loans for Latin American Countries

An article appeared in the *New York Times* of December 8, 1948, page 13, entitled "U.S. Shuns Helping Latins Exploit Oil", written by Milton Bracker under Buenos Aires dateline of December 7. The article stated that a policy of no loans to Latin American nations for

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<sup>1</sup> Sent to the Embassies in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

oil development was laid down at a recent U.S. foreign service conference in Rio de Janeiro to discourage Venezuela from thinking in terms of nationalization.

A summary of the *New York Times* article also appeared in the Soviet press of December 10, in which the Soviet writer attempted to link the recent Venezuelan revolution with the decision allegedly made by the foreign service conference at Rio in November regarding U.S. loans to Latin American countries for petroleum development.

On December 8 the press queried Under Secretary of State Lovett and Assistant Secretary of Commerce Blaisdell on the article which appeared in the *New York Times*. The press was informed that the Rio conference was convened for the purpose of interchanging views between the Department and the missions and not for the purpose of formulating policy. The press was informed further that the Department believes that the best way to obtain petroleum development is by private enterprise.

The query by the Press and reply by the Under Secretary are as follows:

“Q. Mr. Secretary, there is a report from Buenos Aires that the United States will not make loans to South American countries for oil developments. The report says that this was discussed with chiefs of missions of the United States at a regional meeting at Rio.

A. That was shown to me this morning and the report is quite erroneous as to the basic facts. Officials of the Department in connection with economic representations did meet in Rio but oil, petroleum products, was not on the agenda at all.

As to the second part of the question, the policy of the United States Government has been consistently not to make loans of this character because private enterprise is, in the first place, better equipped technically and better equipped from the point of view of ability to look into this and it has always had adequate capital to handle those transactions. There is nothing new in that and it has been repeatedly stated by this government both before the ITO and the United Nations Committees.”

The statement to the press made by Assistant Secretary of Commerce Blaisdell is as follows:

“The conference at Rio was not held for the purpose of forming policy. It was a meeting of officials from Washington with senior officers from United States embassies in Latin America. They met to discuss the United States interest in economic development and trade throughout the hemisphere. Numerous points of view were expressed. There was no ‘prevailing’ opinion at the conference about the steps that might be taken to promote oil development in Latin America. The general point of view of the United States Government with regard to the advantages of private trade and investment is well-known.



Equally well-known is its policy of non-interference with the political determinations made by other governments concerning their own internal affairs. Coordinating these general policies with the particular conditions in the oil industry in particular countries is a basic task in the administration of our foreign policy."

LOVETT

# COOPERATION OF THE UNITED STATES WITH COSTA RICA AND GUATEMALA IN THE DEVELOPMENT OF NEW SOURCES OF QUININE

## I. COSTA RICA

### *Editorial Note*

In despatch 383, August 5, 1948, not printed, the Chargé in Costa Rica (Donovan) transmitted to the Department of State a report (and pertinent documents) concerning the termination of the agreements of March 12, 1943 and March 21, 1944 with Costa Rica, which established the American Cinchona Plantation at Isla Bonita, and the transfer on July 31, 1948 of this project from the United States Government to the Costa Rican Government (818.6173/8-548). For text of the agreement of March 12, 1943 and related documentation, see *Foreign Relations*, 1943, volume VI, pages 94-100.

In despatch 546, November 5, 1948, not printed, the Embassy in Costa Rica transmitted to the Department copies of an exchange of notes with the Costa Rican Ministry of Foreign Affairs, September 9 and November 2, 1948, giving assurances to the United States Government that the Costa Rican Government (1) would make available to appropriate scientists designated by the United States any strains of high yielding cinchona that might be developed for propagation and experimental purposes and (2) would not permit the plantation at any future time to fall directly or indirectly under the control of any world-wide cinchona or quinine monopoly with headquarters outside the Western Hemisphere (818.6173/11-548).

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## II. GUATEMALA

### *Editorial Note*

Termination of the agreement of April 19, 1943, with Guatemala concerning the exploitation and development of cinchona on the El Porvenir plantation was settled by the agreement and contract of sale entered into on December 4, 1948, by the Guatemalan Government and the Reconstruction Finance Corporation; this agreement, terminating the latter's activities at the El Porvenir plantation and selling

to the Guatemalan Government surplus property in the amount of \$100,000, was transmitted to the Department of State in despatch 636, December 20, 1948, not printed (814.6173/12-2048).

In despatch 137, March 16, 1949, not printed, the Embassy in Guatemala transmitted an exchange of notes with the Guatemalan Ministry of Foreign Affairs, November 9, 1948, and March 3, 1949, conveying assurances from the Guatemalan Government that (1) any strains of high yielding cinchona developed on this plantation would be made available for propagation and experimental purposes to scientists designated by the United States Government and (2) the Guatemalan Government would not permit this plantation at any time in the future to fall directly or indirectly under the control of any cinchona or quinine world-wide monopoly with headquarters outside the Western Hemisphere (814.6173/3-1649).



**AGREEMENTS PROVIDING FOR MILITARY AND NAVAL MISSIONS IN CERTAIN AMERICAN REPUBLICS: ARGENTINA, BRAZIL, CHILE, COLOMBIA, ECUADOR, EL SALVADOR, GUATEMALA, PANAMA, PERU, AND VENEZUELA**

**AGREEMENT PROVIDING FOR A MILITARY ADVISORY MISSION FROM THE UNITED STATES TO ARGENTINA, SIGNED OCTOBER 6, 1948**

[For text of the agreement signed at Washington, see Department of State Treaties and Other International Acts Series No. 1813.]

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL RESPECTING A MILITARY ADVISORY MISSION TO BRAZIL**

[For agreement signed at Washington July 29, 1948, entered into force July 29, 1948, see Department of State Treaties and Other International Acts Series No. 1778, or 62 Stat. (pt. 2) 2125.]

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL RESPECTING UNITED STATES PERSONNEL STATIONED IN BRAZIL AND BRAZILIAN PERSONNEL STATIONED IN THE UNITED STATES**

[For agreement effected by exchange of notes signed at Rio de Janeiro December 15, 1947, and February 2, 1948, entered into force February 2, 1948, see Department of State Treaties and Other International Acts Series No. 1759, or 62 Stat. (pt. 2) 1957.]

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**AGREEMENT BETWEEN THE UNITED STATES AND CHILE RELATING TO A UNITED STATES NAVAL MISSION TO CHILE**

[For agreement, temporarily extending the agreement of May 24, 1945, effected by exchange of notes signed at Washington May 22 and October 2, 1948, not printed, see the Department of State files, 825.30 Missions/5-2248, and /9-2848.]

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**AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA RELATING TO A UNITED STATES MILITARY MISSION TO COLOMBIA**

[For agreement, temporarily extending the agreement of May 29, 1942, effected by exchange of notes signed at Washington, May 28

and July 23, 1948, not printed, see the Department of State files 821.20 Missions/5-2848 and /7-848.]

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**AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR  
RESPECTING A MILITARY MISSION TO ECUADOR**

[For agreement, modifying and extending the agreement of June 29, 1944, effected by exchange of notes signed at Washington July 8 and 12, August 23, and September 21, 1948, entered into force September 21, 1948, see Department of State Treaties and Other International Acts Series No. 1843, or 62 Stat. (pt. 3) 3018.]

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**AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR  
EXTENDING THE AGREEMENT OF MAY 21, 1943 PROVIDING FOR THE  
DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE  
MILITARY SCHOOL AND OF THE MILITARY ACADEMY OF EL  
SALVADOR**

[For text of original agreement, signed at San Salvador May 21, 1943, effective May 21, 1943, see Department of State Executive Agreement Series No. 328, or 57 Stat. (pt. 2) 1000. For text of agreement extending for a period of one year the original agreement, effected by exchange of notes of April 27, 1948 and June 4, 1948, effective May 21, 1948, see Department of State files 816.223/4-2748.]

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**AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA  
RESPECTING A UNITED STATES MILITARY MISSION TO GUATEMALA**

[For text of the agreement, extending for a period of four years the agreement of May 21, 1945, effected by exchange of notes signed at Washington, August 3 and October 8, 1948, entered into force on October 8, 1948, and became operative as of May 21, 1949, see 121 United Nations Treaty Series 31.]

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**AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA  
RESPECTING A UNITED STATES MILITARY AVIATION MISSION TO  
GUATEMALA**

[For the agreement, extending for a period of four years the agreement of February 21, 1945, effected by exchange of notes signed at Washington August 3 and October 8, 1948, entered into force on October 8, 1948, and became operative as of February 21, 1949, see 121 United Nations Treaty Series 37.]

**AGREEMENT BETWEEN THE UNITED STATES AND PANAMA RELATING  
TO A UNITED STATES MILITARY MISSION TO PANAMA**

[For agreement, extending for a period of one year the agreement of July 7, 1942, for detail of a United States military officer to serve as adviser to the Ministry of Foreign Affairs of Panama, effected by exchange of notes signed at Washington June 4 and July 23, 1948, not printed, entered into force July 7, 1948, see the Department of State files 819.62221/6-448.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU RELATING  
TO A UNITED STATES MILITARY MISSION TO PERU**

[For agreement, temporarily extending the agreement of July 10, 1944, effected by exchange of notes signed at Washington July 9 and August 23, 1948, not printed, see the Department of State files, 823.20 Missions/7-948 and /8-948.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU RESPECTING  
A UNITED STATES NAVAL MISSION TO PERU**

[For the agreement, extending for four years the agreement of July 31, 1940, as extended, effected by exchange of notes signed at Washington, January 12 and March 2, 1948, entered into force March 2, 1948 and became operative July 31, 1948, see 109 United Nations Treaty Series 9.]

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**AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA RE-  
LATING TO A UNITED STATES MILITARY MISSION TO VENEZUELA**

[For agreement, extending for a period of two years the agreement of June 3, 1946, effected by exchange of notes, signed in Washington June 3 and July 5, 1948, not printed, entered into force June 3, 1948, see the Department of State files, 831.20 Missions/6-448 and /6-2548.]

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**AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA  
RESPECTING A UNITED STATES MILITARY AVIATION MISSION TO  
VENEZUELA**

[For the agreement, extending for two years the agreement of January 13, 1944, effected by exchange of notes signed at Washington December 23, 1947 and January 30, 1948, entered into force on January 30, 1948 and became operative as of January 13, 1948, see 109 United Nations Treaty Series 25.]



## POLICIES OF THE UNITED STATES AND CERTAIN OTHER AMERICAN REPUBLICS WITH RESPECT TO THE CONTINENTAL SHELF AND HIGH SEAS FISHERIES

818.0145/7-2748 : Airgram

*The Secretary of State to the Embassy in Costa Rica*

CONFIDENTIAL

WASHINGTON, August 30, 1948.

A-151. Reference Embassy's despatch no. 375, July 28, 1948.<sup>1</sup> Issuance of continental shelf decree no. 116 is of concern to the Department. For the United States position regarding Costa Rican claim of high seas jurisdiction for fisheries conservation refer to Embassy's despatch no. 69 of August 14, 1947,<sup>2</sup> especially text of the Embassy's *Aide-Mémoire* left at the Foreign Office June 18, 1947.<sup>3</sup> For United States fisheries proclamation and its general principles refer to Department's circular instruction of October 17, 1945.<sup>4</sup>

Decree 116 almost identical to Chilean decree of June 23, 1947 respecting which the United States entered reservations at Santiago July 2, 1948.<sup>5</sup> The United States also filed reservations in July respecting Argentine and Peruvian shelf decrees.<sup>6</sup> The basis for the United

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<sup>1</sup> Not printed; it transmitted a copy of Decree No. 116, issued by the Junta, which extended Costa Rican sovereignty for 200 miles over the seas adjacent to its coasts and insular possessions (818.0145/7-2848).

<sup>2</sup> Not printed.

<sup>3</sup> See telegram 189, June 6, 1947, to the Embassy in Costa Rica, in *Foreign Relations*, 1947, vol. VIII, p. 598. The Chargé in Costa Rica (Carrigan) reported in telegram 254, June 18, 4 p. m., not printed, that he had delivered an *aide-mémoire* along the lines of Department's telegram 189, June 6, respecting extension of territorial waters (818.628A/6-1847).

<sup>4</sup> See press release issued by the White House, September 28, 1945, concerning issuance of two proclamations, (1) asserting jurisdiction of the United States over the natural resources of the continental shelf under the high seas contiguous to the coasts of the United States and its territories, and (2) protection of fisheries in certain areas of the high seas contiguous to the United States, in *Foreign Relations*, 1945, vol. II, p. 1528.

<sup>5</sup> For the note of July 2, 1948, by the Embassy in Chile to the Chilean Foreign Office with respect to the Decree issued by the President of the Republic of Chile on June 25, 1947, see Department of State pub. 7825, *Digest of International Law*, vol. 4, p. 796.

<sup>6</sup> For note of July 2, 1948, by the Embassy in Argentina to the Argentine Foreign Office with respect to the Declaration of the President of the Argentine Nation on October 11, 1946, concerning the industrial utilization of the resources of the continental shelf and the coastal seas, see *ibid.*, p. 793. For note of July 2, 1948, by the Embassy in Peru to the Peruvian Foreign Office concerning the Decree of the President of the Republic issued on August 1, 1947, concerning the conservation of the resources of the continental shelf and the coastal seas, see *ibid.*, p. 798.

States reservations was that the United States proclamation contemplated no general extension of territorial waters. The United States must reserve its rights and interests when a State (1) claims national sovereignty over the seas outside the generally accepted limits of territorial waters and (2) fails to accord appropriate and adequate recognition to United States fishing rights and interests in the high seas. The Department is studying advisability of immediate formal reservations regarding Decree 116.

Meanwhile, Decree 116 is apparently not self-executing and will require further regulations before there is any authorized interference with United States fishing vessels outside the three-mile limit. Any such interference would be a matter of serious concern to this Government. Therefore, in the interests of continued good relations, the Embassy is authorized to make friendly representations to appropriate Costa Rican officials now before the regulations are issued and incidents occur.

The Embassy should emphasize that lengthy extensive United States historic fishing interest in high seas tuna off Costa Rica precludes United States recognition of unilateral Costa Rican conservation jurisdiction and that United States-Costa Rica fisheries treaty is prerequisite to establishment of high seas zone off Costa Rica.

Impress Foreign Office that the United States would look with favor on negotiation of a fisheries agreement with Costa Rica whereby a high seas conservation zone off Costa Rica might be established and fishing regulations issued in accordance with principles set forth in *Aide-Mémoire* of June 18, 1947.

Embassy is requested to wire continuing information respecting above subjects.

MARSHALL

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812.0145/9-2748

*The Ambassador in Mexico (Thurston) to the Secretary of State*

No. 1624

MEXICO, September 27, 1948.

SIR: In the course of a recent conversation with the Minister for Foreign Affairs<sup>1</sup> concerning arrangements preliminary to official discussion of a fisheries convention between the United States and Mexico, Señor Torres Bodet expressed to me the opinion that it would be difficult for the two countries to reconcile their divergent views with re-

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<sup>1</sup> Jaime Torres Bodet.

spect to the extent of national jurisdiction over territorial waters.<sup>2</sup> His remarks on this subject may be of interest to the Department.

The Minister stated that Mexico's contention is that its jurisdiction over territorial waters extends to the limit of the submerged continental shelf and in any event to a distance greater than the three-mile limit occasionally mentioned by us as constituting the accepted jurisdiction under international law. He said that the position of the United States on this point could be challenged because in the Treaty of Guadalupe Hidalgo, concluded February 2, 1848, we had agreed with Mexico, in Article V, that "the boundary line between the two republics shall commence in the Gulf of Mexico, three leagues from land, opposite the mouth of the Rio Grande . . .", and because at the Inter-American Conference for the Maintenance of Continental Peace and Security, held at Quitandinha, Brazil, in the fall of 1947, we had agreed (Articles 3 and 4 of the Inter-American Treaty of Reciprocal Assistance) to the establishment of a hemispheric security region whose boundaries extend out to sea far beyond any previously claimed range of jurisdiction.

Respectfully yours,

WALTER THURSTON

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<sup>2</sup> For the Department's note of January 24, 1946 to the Mexican Embassy setting forth the limiting conditions under which the United States could accept the application of the Mexican decree of October 29, 1945, see *Foreign Relations*, 1946, vol. XI, p. 1054. For the Mexican Presidential Decree "incorporating in the property of 'Petroleos Mexicanos' the subsoil of the lands covered by the territorial waters of the Gulf of Mexico and other lands specified therein", February 25, 1949, see Department of State Publication No. 7825, *Digest of International Law*, vol. 4, p. 803.

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### *Editorial Note*

Circular instruction of December 2, 1948 to Diplomatic Officers, not printed, transmitted copy of a press release of November 29, 1948 containing an address delivered by Walter M. Chapman, Special Assistant to the Under Secretary of State, on United States policy with respect to the conservation of fisheries in the high seas; for an article by Mr. Chapman on this subject, see the Department of State *Bulletin*, January 16, 1949, p. 67.

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SIS.62S/12-1548

*The Secretary of State to the Ambassador in Costa Rica (Davis)*

CONFIDENTIAL  
No. 18

WASHINGTON, February 10, 1949.

The Secretary of State refers to the Embassy's unclassified Despatch No. 617 of December 15, 1948, confidential Despatch No. 580 of No-



vember 24, 1948, confidential Airgram No. A-349 of October 13, 1948,<sup>1</sup> and other correspondence concerning Decrees No. 116 and 190 of Costa Rica relative to fisheries control by Costa Rica in waters off her coasts.

The accomplishments of the Embassy in its discussions of September 9, 1948 with the Foreign Minister, and on September 18 and October 10 with the Acting Foreign Minister, in which it presented this Government's position with regard to fishery conservation zones, are to be commended. The results of these discussions included (1) a proffer on the part of Father Nunez, Acting Foreign Minister, to enter into negotiations with United States representatives looking toward a fisheries agreement between Costa Rica and the United States; and (2) with respect to Decree No. 190 entitled "Law of Maritime Hunting and Fishing", the omission of any definition of the extent of Costa Rican territorial waters, the phraseology having been deliberately left vague in view of the possibilities of a convention with this Government. In these and other regards, the instructions of the Department's confidential Airgram No. A-151 of August 30, 1948 were carried out by the Embassy in an able manner.

Unfortunately, the Department was not in a position in the Fall of 1948 to undertake the negotiations referred to; and action upon Father Nunez' suggestion of negotiations was deferred. At the same time, in view of Father Nunez' statement that Costa Rica did not propose, on the basis of Decree No. 190, to exercise jurisdiction beyond the three-mile limit of territorial waters, it was felt inadvisable to file reservations with respect to the 200-mile claim over the coastal seas asserted by Decree No. 116, published July 28, 1948 about two months before Decree No. 190 was issued.

In its confidential Despatch No. 580 of November 24, 1948,<sup>2</sup> however, the Embassy forwarded information on the visit to the Embassy of Mr. Roger Stone, Director of the Department of Fishing Conservation of the Ministry of Agriculture of Costa Rica. In the course of his visit, Mr. Stone indicated a cautious or negative view with regard to the possibility of a fisheries treaty with the United States, and the Embassy stated that it was clear that, so far as Mr. Stone was concerned, the United States would have to "sell" a fisheries treaty to Costa Rica.

It now appears that the Department may, in the near future, be in a position to undertake negotiations for a fisheries conservation convention with Costa Rica. In addition, since the Embassy's approach to the Foreign Office on this general subject, negotiations for a convention between this Government and the Mexican Government have

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<sup>1</sup> None printed.

<sup>2</sup> Not printed.

taken place at Mexico City, as a result of which a convention was signed at Mexico City on January 25, 1949.<sup>3</sup> The convention, which provides for the scientific investigation of the tuna and tuna-like fishes, and of fishes used as bait in the tuna fishery, might serve as a model for an agreement between the United States and Costa Rica. A copy of the convention is enclosed, together with press release No. 53 of January 24, 1949 concerning it.<sup>4</sup>

Having regard to all these factors, and to the fact that Decrees No. 116 and 190 taken together erect a basis in Costa Rican law for immediate action by Costa Rica for the exercise of jurisdiction seaward, the question arises whether this Government should now take action to reserve its rights and interests so far as concerns any effects upon United States commerce of either decree. As the Embassy is aware, this Government filed reservations with respect to similar decrees of Argentina, Chile, and Peru in July 1948. Insofar as inaction on the part of the United States might later be claimed to signify acquiescence in the Costa Rican claims, reservations should now be filed except if (1) a fisheries convention between the United States and Costa Rica is possible in the near future and (2) the filing of reservations were to render such a convention less probable.

On the assumption that the Department would be prepared within three months to undertake negotiations for a convention based upon the United States-Mexico Convention enclosed, the Embassy is requested to advise the Department concerning the wisdom of postponing reservations, taking into account the possibly diverse opinions of the Foreign Office and the Ministry of Agriculture on the desirability or possibility of a fisheries convention with the United States.

If approach is made to officials of the Costa Rican Government in regard to the subject, the Embassy should not make any definitive statements about the time or probability of any negotiations.<sup>5</sup>

There is enclosed for the Embassy's information a copy of the Department's letter of January 14, 1949<sup>6</sup> to Mr. Tom Sandoz of the

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<sup>3</sup> For the convention for establishment of an international commission for the scientific investigation of tuna, signed January 25, 1949, see Department of State TIAS 2094, 1 UST 513, or 99 UNTS 3. For summary statement of this convention which resulted from recommendations made by delegates to the Mexico City conference, October 25 to November 4, 1948, which met to discuss fish conservation matters of common concern to the United States and Mexico, see Department of State pub. 7825, *Digest of International Law*, vol. 4, p. 1029.

<sup>4</sup> Department of State *Bulletin*, February 6, 1949, p. 174.

<sup>5</sup> For a convention for the establishment of an Inter-American Tropical Tuna Commission, signed at Washington by representatives of the United States and Costa Rica, May 31, 1949, see Department of State TIAS 2044, or 1 UST 230. For a press release on this subject, see Department of State *Bulletin*, June 12, 1949, p. 766.

<sup>6</sup> Not printed.

Columbia River Packers Association, Incorporated, Astoria, Oregon, and five other Pacific Coast representatives of the tuna industry.

There is also enclosed for the Embassy's information copies of the notes of reservation filed by this Government on July 2, 1948 at Buenos Aires, Santiago, and Lima with respect to the decrees of Argentina, Chile, and Peru respectively.<sup>7</sup> These notes are declassified.

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<sup>7</sup> See airgram 151, August 30, p. 263.



ARRANGEMENTS FOR CONTINUATION BY THE ORGANIZATION OF AMERICAN STATES OF INTER-AMERICAN COOPERATION WITH RESPECT TO COFFEE <sup>1</sup>

561.333D3/5-2448

*The Secretary of State to the United States Representative on the Council of the Organization of American States (Daniels), at Washington*

No. 1

WASHINGTON, May 24, 1948.

The Secretary of State encloses herewith, for transmission by the United States Representative on the Council of the Organization of American States to the Director General of the Pan American Union for deposit, the instrument of ratification signed by the President on May 14, 1948 of a protocol, dated at Washington October 1, 1947, for the extension of the Inter-American Coffee Agreement for one year from October 1, 1947.<sup>2</sup>

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<sup>1</sup> For previous documentation on the Inter-American Coffee Agreement see *Foreign Relations*, 1947, vol. VIII, pp. 155 ff. For additional data on the establishment of a Special Commission on Coffee under the Inter-American Economic and Social Council, see *Annals of the Organization of American States* (Pan American Union) vol. I, no. 1, 1949, pp. 151 and 171.

<sup>2</sup> For text, see Department of State Treaties and Other International Acts Series No. 1768, or 62 Stat. (pt. 2) 1658.

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561.333D3/8-348

*The Vice Chairman of the Inter-American Coffee Board (Toro) to the Secretary of State*

WASHINGTON, August 3, 1948.

MY DEAR MR. SECRETARY: As your Excellency knows, during the last few months the Inter-American Coffee Board has been actively engaged in studying the form in which the inter-American cooperation with respect to coffee should be continued.

After several meetings, the Board finally gave its approval yesterday to the Resolution which I have the honor to transmit herewith,<sup>1</sup> recommending to the Governments participating in the Coffee Agreement that the Board be authorized to request the Organization of American States to assume responsibility, as of October 1, 1948, for

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<sup>1</sup> Resolution of August 2, not printed.

the continuation of the inter-American cooperation which has been carried out until now by the Board.

The Resolution recommends further that arrangements as to the functions and procedures of the new entity on coffee within the Organization of American States be agreed upon between the Board and the Organization, prior to October 1, 1948.

In submitting this Resolution to your Excellency's Government, the Board has asked me to request that your Government kindly inform us if it approves this Resolution, before the end of the current month of August, in order that we may have sufficient time during September to carry out the arrangements referred to in the Board's Resolution.

I avail myself of this opportunity to renew to your Excellency the assurances of my highest consideration.

EMILIO TORO

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561.333D3/9-1448

*Memorandum by Mr. John K. Havemeyer of the Office of International Trade Policy*

[WASHINGTON,] September 14, 1948.

Subject: Meeting No. 114 of the Inter-American Coffee Board

The Inter-American Coffee Board met at its offices, 2400 16th Street, N.W., Washington, D.C., at 10:30 a. m. on September 14, 1948.

The Chairman welcomed the new Alternate Delegate from Brazil, Dr. Walder L. Sarmanho.

1. *Approval of Minutes.* The minutes of Meeting No. 113 were considered and approved without change.

2. *Consideration of Future Inter-American Cooperation With Respect to Coffee.* The Secretary-Manager's report and statements made by the representatives of Guatemala, Venezuela and Brazil indicated that all governments participating in the Agreement had accepted the Board's resolution of August 2, 1948 except Costa Rica, Cuba, Ecuador and Nicaragua. The Chairman asked that the delegates of those countries make an effort to secure a reply from their governments before September 30, 1948. The Board authorized the Secretary-Manager to work directly with the delegates and embassies in Washington in order to expedite acceptance.

The Chairman then asked the Delegate of Venezuela, who is also the acting chairman of the Inter-American Economic and Social Council, for a report on the present status of the draft resolution which the Board prepared for the Council. (This resolution creates a Commission on Coffee under the IA-ECOSOC.) The Delegate of Venezuela replied that the Council had not yet considered the draft but that

it had been circulated among the members and would be considered at its next meeting.

The Chairman pointed out that since eleven governments represented on IA-ECOSOC have already approved the Board's resolution of August 2, 1948, it was implicit that there should be no question concerning approval by IA-ECOSOC of the draft resolution now being circulated. The Delegate of Guatemala suggested that the resolution of the Board dated August 2 is now effective and that the Chairman of the Board should immediately write a letter to the appropriate authority in the Organization of American States requesting that organization to assume responsibility as of October 1, 1948, for continuation of Inter-American governmental cooperation with respect to coffee.

The Chairman then presented for the Board's consideration a draft resolution. This resolution was passed by the Board with one amendment. (Attachment 1)

In the discussion of the resolution, the Delegate of Colombia suggested that paragraph 4 of the resolution include the transfer of the Board's Trade Advisory Committee. The consensus of the Board was that this would not be appropriate, but it was agreed that the Chairman would write direct to the Chairman of the Trade Advisory Committee, presenting the Board's thanks for its past cooperation and expressing its hope for continued cooperation when the Commission on Coffee is established in the Organization of American States. The Chairman replied that the members of the Board could meet after September 30 as individuals and could advise their governments to expedite the creation of the Commission on Coffee, should the necessity for doing so arise. He and other members of the Board expressed the view, however, that there would be no occasion for doing this.

[Here follow statements on annual reports, the coffee study, lease on the Board's offices, and financial affairs.]

[Attachment 1]

*Resolution by the Inter-American Board*

WASHINGTON, September 14, 1948.

WHEREAS: Article 3 paragraph (c) of the protocol extending the Inter-American Coffee Agreement for one year beginning October 1, 1947 states that the Inter-American Coffee Board shall undertake to make arrangements prior to October 1, 1948 for the transfer of its functions, assets and records to an appropriate inter-American or other international organization.



WHEREAS: The Board's resolution of August 2, 1948 recommending to the Governments participating in the Inter-American Coffee Agreement that the Board be authorized to request the Organization of American States to assume responsibility, as of October 1, 1948, for continuation of inter-American governmental cooperation with respect to coffee, has been approved;

THE INTER-AMERICAN COFFEE BOARD

RESOLVES:

(1) To transfer, on October 1, 1948 its physical assets and records to the Organization of American States;

(2) To authorize the present Executive Committee of the Board to complete the translation and publication of Annual Reports and the Coffee Study and to pay any outstanding debts which were authorized by the Board or may be necessary in bringing to completion projects which were authorized by the Board;

(3) To authorize the Executive Committee, after completing the tasks set forth in paragraph (2), but not later than December 31, 1948, to transfer such financial assets as remain to the Organization of American States;

(4) To request the Executive Committee to recommend to the Organization of American States the employment of the present staff of the Board.

## **AGREEMENTS WITH CERTAIN AMERICAN REPUBLICS PROVIDING FOR COOPERATIVE PROGRAMS**

### **AGREEMENTS BETWEEN THE UNITED STATES AND COSTA RICA RESPECTING A COOPERATIVE FOOD PRODUCTION PROGRAM IN COSTA RICA**

[For agreement confirming and accepting the agreement of February 19, 1948, respecting a cooperative food production program in Costa Rica, effected by exchange of notes signed at San José February 20 and 27, 1948, entered into force February 27, 1948, see Department of State Treaties and Other International Acts Series No. 1772, or 62 Stat. (pt. 2) 2045. For agreement extending the agreement of February 20 and 27, 1948, effected by exchange of notes signed at San José August 27 and October 5, 1948, entered into force October 5, 1948, see Department of State Treaties and Other International Acts Series No. 1992, or 62 Stat. (pt. 3) 3916.]

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### **AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR RE- SPECTING AN AGRICULTURAL EXPERIMENT STATION IN ECUADOR**

[For agreement, superseding the memorandum of understanding of August 12, 1942, effected by exchange of notes signed at Quito January 26 and April 16, 1948, entered into force April 16, 1948, see Department of State Treaties and Other International Acts Series No. 1875, or 62 Stat. (pt. 3) 3605.]

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### **AGREEMENT BETWEEN THE UNITED STATES AND HAITI RESPECTING A COOPERATIVE FOOD PRODUCTION PROGRAM IN HAITI**

[For agreement, modifying and extending the agreement of August 28, 1944, as modified and extended, effected by exchange of notes signed at Port-au-Prince June 25 and 29, 1948, entered into force June 30, 1948, see Department of State Treaties and Other International Acts Series No. 2075, or 62 Stat. (pt. 3) 4029.]

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### **AGREEMENT BETWEEN THE UNITED STATES AND PARAGUAY RE- SPECTING A COOPERATIVE AGRICULTURAL PROGRAM IN PARAGUAY**

[For agreement, modifying and extending the agreement of December 31, 1942, as modified and extended, effected by exchange of notes

signed at Asuncion June 30, 1948, entered into force July 16, 1948, operative retroactively from June 30, 1948, see Department of State Treaties and Other International Acts Series No. 2118, or 63 Stat. (pt. 3) 2889.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU RESPECTING  
AN AGRICULTURAL EXPERIMENT STATION AT TINGO MARIA**

[For agreement effected by exchange of notes signed at Lima March 17 and June 1, 1948, entered into force June 1, 1948, see Department of State Treaties and Other International Acts Series No. 1866, or 62 Stat. (pt. 3) 3474.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU RESPECTING  
A COOPERATIVE FOOD PRODUCTION PROGRAM IN PERU**

[For agreement, extending the agreement of May 19 and 20, 1943, as modified and extended, effected by exchange of notes signed at Lima June 28, and July 8, 1948, entered into force July 9, 1948, see Department of State Treaties and Other International Acts Series No. 1872, or 62 Stat. (pt. 3) 3584.]

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**AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA  
RESPECTING A CIVIL AVIATION MISSION**

[For agreement effected by exchange of notes signed at Caracas March 22 and 24, 1948, entered into force March 24, 1948, see Department of State Treaties and Other International Acts Series No. 1804, or 62 Stat. (pt. 3) 2666.]

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**AGREEMENT BETWEEN THE UNITED STATES AND MEXICO RELATING  
TO THE ERADICATION OF FOOT-AND-MOUTH DISEASE IN MEXICO**

[For the agreement effected by exchange of notes signed in Mexico, December 15, 1947 and January 3, 1948, entered into force January 3, 1948, see Department of State Treaties and Other International Acts Series No. 2404, or 3 UST 415-423. Agreement was reached on modification of the procedure whereunder the Mexican-United States Commission for the Eradication of the Foot-and-Mouth Disease initiated and conducted for some time its operations in Mexico; this modification was to be effected under the Agreement signed in Wash-



ington on December 10, 1947 between the United States and Mexican members of the Commission, 3 UST 415-418. For previous documentation on the joint United States-Mexican campaign against Foot-and-Mouth Disease, see *Foreign Relations*, 1947, volume VIII, pages 811 ff.]

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**AGREEMENT BETWEEN THE UNITED STATES AND BOLIVIA RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM IN BOLIVIA**

[For agreement, modifying and extending the agreement of July 15 and 16, 1942, as modified and extended, effected by exchange of notes signed at La Paz July 1 and 14, 1948, entered into force July 14, 1948, operative retroactively from June 30, 1948, see Department of State Treaties and Other International Acts Series No. 1999, or 62 Stat. (pt. 3) 3920.]

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM IN BRAZIL**

[For agreement, amending and extending the agreement of November 25, 1943, as modified, effected by exchange of notes signed at Rio de Janeiro December 15 and 30, 1948, entered into force January 14, 1949, operative retroactively from January 1, 1949, see Department of State Treaties and Other International Acts Series No. 1939, or 62 Stat. (pt. 3) 3831.]

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**AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM IN COLOMBIA**

[For agreement, modifying and extending the agreement of February 14 and 19, 1946, effected by exchange of notes signed at Bogotá July 8 and 29, 1948, entered into force July 31, 1948, operative retroactively from June 30, 1948, see Department of State Treaties and Other International Acts Series No. 1958, or 62 Stat. (pt. 3) 3880.]

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**AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM IN ECUADOR**

[For agreement, modifying and extending the agreement of February 24, 1942, as modified and extended, effected by exchange of

notes signed at Quito August 6 and 18, 1948, entered into force August 20, 1948, operative retroactively from June 30, 1948, see Department of State Treaties and Other International Acts Series No. 2003, or 62 Stat. (pt. 3) 3927.]

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**AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR  
AMENDING AND EXTENDING THE HEALTH AND SANITATION  
PROGRAM AGREEMENT OF FEBRUARY 29, 1944, AS EXTENDED**

[For agreement, effected by exchange of notes at San Salvador May 4 and 5, 1942, effective May 5, 1942, see Department of State Executive Agreement Series No. 367, or 57 Stat. (pt. 2) 1303. Basic agreement, as amended, between El Salvador and the Institute of Inter-American Affairs, February 29, 1944, which provided for the continuation of the existing cooperative health and sanitation program, undertaken in 1942, not printed. For agreement amending and extending the agreement of February 29, 1944, as extended, effected by exchange of notes signed at San Salvador August 18 and September 23, 1948, effective October 23, 1948, operative retroactively from July 1, 1948, see Department of State Treaties and Other International Acts Series No. 2440, or 3 UST (2) 2728.]

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**AGREEMENT BETWEEN THE UNITED STATES AND HAITI RESPECTING  
A COOPERATIVE HEALTH AND SANITATION PROGRAM IN HAITI**

[For agreement, extending the agreement of April 7, 1942, as amended, until June 30, 1949, effected by exchange of notes signed at Port-au-Prince June 25, and 30, 1948, entered into force June 30, 1948, see Department of State Treaties and Other International Acts Series No. 1801, or 62 Stat. (pt. 3) 2649.]

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**AGREEMENT BETWEEN THE UNITED STATES AND HONDURAS RE-  
SPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM  
IN HONDURAS, EXTENDING AND MODIFYING THE AGREEMENT OF  
JULY 8, 1942, AS EXTENDED AND MODIFIED**

[For contract between Honduras and the Institute of Inter-American Affairs, July 8, 1942, which provided for the initiation and execution of the cooperative health and sanitation program in Honduras, see 61 Stat. (pt. 3), p. 2334. For agreement between the United States and Honduras extending and modifying the agreement of July 8, 1942, as extended and modified, effected by exchange of notes signed at Tegucigalpa June 29 and July 6, 1948, entered into force

July 6, 1948, see Department of State Treaties and Other International Acts Series No. 1980, or 62 Stat. (pt. 3) 3904.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PARAGUAY  
RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM  
IN PARAGUAY**

[For agreement effected by exchange of notes signed at Asuncion June 30, 1948, entered into force July 30, 1948, see Department of State Treaties and Other International Acts Series No. 2386, or 3 UST (pt. 1) 26.]

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**AGREEMENTS BETWEEN THE UNITED STATES AND URUGUAY  
RESPECTING A COOPERATIVE HEALTH AND SANITATION PROGRAM  
IN URUGUAY**

[For agreement supplementing and extending the agreement of October 1 and November 1, 1943, as modified and extended, effected by exchange of notes signed at Montevideo November 10, 1947, and January 3, 1948, entered into force January 3, 1948, operative retroactively from January 1, 1948, see Department of State Treaties and Other International Acts Series No. 2158, or 62 Stat. (pt. 3) 4117.

For agreement modifying and extending the agreement of October 1 and November 1, 1943, as modified and extended, effected by exchange of notes signed at Montevideo June 25 and July 20, 1948, entered into force October 7, 1948, operative retroactively from July 1, 1948, see Department of State Treaties and Other International Acts Series No. 2159, or 62 Stat. (pt. 3) 4128.]

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL RESPECT-  
ING A COOPERATIVE MINERAL RESOURCES SURVEY PROGRAM IN  
BRAZIL**

[For agreement effected by exchange of notes signed at Rio de Janeiro November 26, 1948, entered into force November 26, 1948, see Department of State Treaties and Other International Acts Series No. 1880, or 62 Stat. (pt. 3) 3636.]

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**AGREEMENT BETWEEN THE UNITED STATES AND HAITI RESPECTING  
COOPERATIVE RUBBER PLANTATION INVESTIGATIONS**

[For agreement between the United States and Haiti, amending an agreement of January 24, 1941, effected by exchange of notes signed at



Port-au-Prince February 3 and 11, 1948, entered into force February 11, 1948, see Department of State Treaties and Other International Acts Series No. 1771, or 62 Stat. (pt. 2) 2041.]

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**AGREEMENT BETWEEN THE UNITED STATES AND CUBA RESPECTING  
A COOPERATIVE PROGRAM FOR WEATHER STATIONS IN CUBA**

[For agreement, amending and extending the agreement of July 17 and August 2, 1944, effected by exchange of notes dated at Habana August 21, 1947, and January 27, 1948, entered into force January 27, 1948, effective retroactively from July 1, 1947, see Department of State Treaties and Other International Acts Series No. 1847, or 62 Stat. (pt. 3) 3134.]

## ARGENTINA

### POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND ARGENTINA

711.35/1-548

*Memorandum by Mr. Henry Dearborn of the Division of River Plate  
Affairs*<sup>1</sup>

CONFIDENTIAL

[WASHINGTON,] January 20, 1948.

Our Embassy in Buenos Aires has sent us its comments on our relations with Argentina.<sup>2</sup> In summary, they are as follows:

*The Austral Bloc.* It seems unlikely that Argentina will have much success in creating an austral bloc, particularly if we succeed in strengthening the inter-American system. The Argentine desire to dominate its section of Latin America is traditional; but Paraguay and Bolivia probably harbor more distrust than love for Argentina while there appears to be no immediate danger that any real domination will be effected over Uruguay and Chile. We should not permit an exaggerated fear of an austral bloc to obscure our objectives in strengthening the inter-American system.

*Bogotá Conference.*<sup>3</sup> Argentina is reported to be dissatisfied with the resolution which it understands the U.S. will propose at Bogotá looking toward the Inter-American Economic Conference. The Director of Economic Affairs of the Argentine Foreign Office feels that the U.S. resolution as reported in Buenos Aires is too generalized and merely "another expression of fine intentions with little practical meaning." Argentina is more in accord with a resolution offered by Ecuador and expects that it will be proposed at Bogotá that the Economic Con-

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<sup>1</sup> Addressed to the Assistant Secretary of State for Political Affairs (Armour), the Director and the Deputy Director of the Office of American Republic Affairs (Daniels and Woodward, respectively), and the Chief of the Division of River Plate Affairs (Tewksbury).

<sup>2</sup> Despatch No. 2 of January 5, 1948, from the Chargé in Argentina (Ray), not printed. In airgram A-5, dated January 2 but sent on January 9, Ambassador James Bruce informed the Department of State that he had read Mr. Ray's despatch (written without consultation with him) and agreed with every word of it (711.35/1-248).

<sup>3</sup> For documentation on the Ninth International Conference of American States, held at Bogotá, Colombia, March 30-May 2, 1948, see pp. 1 ff.

ference <sup>4</sup> undertake a task roughly similar to that of the sixteen nation conference held at Paris.<sup>5</sup>

Argentina will probably hold up its own bilateral trade treaties with its neighbors as examples of a proper line of procedure and is so instructing its Bogotá delegation. Argentina's ambition is doubtless to gain greater international influence and concomitantly to attain a greater degree of industrialization with the attendant assured markets in South America. We should not be disturbed by this. The more Argentina is involved in over-all Latin American economic cooperation the less possibility there is of an austral bloc. Argentina's neighbors can be trusted not to deliver themselves fully into that country's power. We should strongly encourage Argentine economic cooperation in inter-American matters.

*Argentina as a military threat.* If we should have a war in the future, we want Argentina on our side. There is no better way to do this than by increasing our influence with the armed forces. By supplying Argentina with the arms and technical knowledge it is requesting we would not be making that country a military threat to the U.S. or to any other country in the hemisphere. Even if given all the help it requests, Argentina would be in no position to be a military threat to us and we would not permit that country to attack another American republic.

*Perón<sup>6</sup> and his administration.* . . .

*Informational & Cultural programs.* Our relations with Argentina in the near future will depend on the attitude of the Government and the trend of our political dealings and not to any appreciable degree on our information or cultural activities. Our cultural activities should be directed to a very practical end. We can encourage the Argentines to look to the United States for scientific, engineering and other knowledge, to buy U.S. books, and to look to us for technical assistance and other help in developing their country. Such measures will promote commerce with the U.S. and make our relations with Argentina more productive. A cultural program for culture's sake should not give us any great concern for the moment.

*Argentine beef.* The best we can do for the moment is to soft-pedal this question.

*U.S. Attitude toward Argentina.* If the European Recovery Pro-

<sup>4</sup> For documentation on postponement of the projected Buenos Aires Conference, see pp. 73 ff.

<sup>5</sup> For documentation on the conference that led to formation of the Committee of European Economic Cooperation (based on the Marshall Plan), see *Foreign Relations*, 1947, vol. III, pp. 249 ff.

<sup>6</sup> Juan D. Perón, President of Argentina.



gram is put into effect, we should not permit large amounts of dollar exchange to be paid Argentina unless the latter adopts a reasonable policy with regard to the price of wheat and takes certain measures which would substantially improve our relations.

We should stress inter-American unity and avoid unilateral condemnation of Argentina.

In all inter-American conferences and meetings we should emphasize freedom of the press, free enterprise and free elections.

We would waste our time preaching principles to the Péron Administration. We should make that Administration see that certain advantages will accrue to Argentina under given conditions.

A U.S. policy toward Argentina as herein outlined will probably bring "squawks" from Brazil, Uruguay and possibly other countries. We should assure these countries that they have our friendship and support "and they will have to be content with that."

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733.35/2-2048

*The Counselor of Embassy in Argentina (Ray) to the Ambassador in Uruguay (Briggs)*<sup>1</sup>

CONFIDENTIAL

BUENOS AIRES, February 20, 1948.

DEAR ELLIS: Ambassador Bruce tells me that he discussed with you briefly the Uruguayan reaction to President Perón's recent references to a "third position" and Uruguayan preoccupations regarding this speech, and also regarding the expected meeting between the Presidents of Argentina and Uruguay.

Perón has made many references from time to time to Argentina's "third position". We have reported on this so often and so fully to the Department that we merely sent the text of his most recent statements to the Department without any attempt to analyze it further. We have on a number of occasions asked Bramuglia<sup>2</sup> and Perón what they meant by "third position" and why they considered it necessary to make frequent references to such a position since these statements usually created a bad impression in the other American countries. They usually shrugged their shoulders and remarked that statements of such a character were a bit of political demagoguery for home consumption. Perón has explained that he does have a "third position" in an economic sense: he does not believe in a Communist or Socialist state or in any form of totalitarian economy. He thinks the Communists and Socialists go much too far but that the purely

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<sup>1</sup> Copy transmitted to the Department by the Ambassador in Argentina (Bruce) in his despatch 145, February 20, not printed.

<sup>2</sup> Juan Atilio Bramuglia, Minister for Foreign Affairs and Worship.

capitalist countries frequently have trusts or monopolies which cause abuses. He has explained to us that he believes public utilities such as telephones, telegraphs, post offices, electric light power, street cars, railways, etc., should be owned and operated by the government. He professes to believe that ordinary commerce should remain in the hands of private industry. He describes his position, therefore, as being somewhere between the extreme left and the extreme right. He insists that his so-called "third position" does not mean in any sense, nor has ever meant, that in case of trouble between the United States and Russia he would adopt a neutral attitude and try to play one off against the other. The President, the Foreign Minister, and a number of others in the Foreign Office have reiterated to us time and again that if trouble should arise between the United States and Russia, Argentina would immediately take our side. There seems to be little doubt that Perón and his principal associates are anti-Communist.

We suspect that Uruguay and some of the other neighboring countries are prone to use the Argentine bogey man for enlisting the sympathy of the United States and urge us to accentuate our support for them, financially and otherwise. We have no doubt that Argentina has brought some pressure from time to time to bear on some of its smaller neighbors. The idea that Argentina should have a dominant position, at least in the southern part of South America, is not one which Perón initiated. There is nothing in Argentina's history to indicate a concerted plan to increase its territory through military conquest. Its record in that sense might compare pretty favorably with ours.

There is no doubt that Perón and his administration are friendly with the Franco regime in Spain and also feel that the United States is following a mistaken policy in its relations with Franco. Perón argues that Spain is the best bulwark in Europe against Communism and that we should all give Franco our support.

In a conversation we had with Perón yesterday he did not mention the so-called "third position". He dwelt at considerable length on his desire to put relations between Argentina and the United States on a friendly and durable basis. He emphasized that we must work together against the Communists and that we must get our relations on a basis where our interests will be parallel rather than opposed and that if we can do this, there should be no reason why Argentina and the United States should have any real difficulties.

In his conversation yesterday, Perón brought up the point which has considerable justification and which he had never mentioned to us before. He said that during the period of the revolution from 1943 to 1946 when he took office the administration here was carrying on a

lot of experiments and had made a lot of mistakes. He said there might have been some justification at times of a feeling that Argentina was not entirely friendly towards the United States. Perón emphasized that since he took office, he has made every possible effort to improve Argentina's relations with the United States and that he believed he and Mr. Bruce could make a lot of headway within the next few months in a further improvement of relations. He said that he had frequently been accused in the American press of being anti-United States and remarked that he considered himself much more friendly towards the United States than previous administrations, under the Conservatives, had been. He remarked that for many years relations between Argentina and the United States had been bad and that much of this was due to the attitude of former conservative administrations in Argentina. Our study of Argentina's history makes us inclined to agree with him on this point.

We would certainly not say that things are going here just the way we would like to have them. However, our relations with Perón and Bramuglia have been cordial and friendly and so far they have kept all the promises they have made to us. We have been able to obtain quite a number of concessions from Perón. He has not granted every request we have made of him, but in every instance where he has given his word, he has kept it to the letter.

Perón pointed to Argentina's attitude at the Río Conference<sup>3</sup> as proof of Argentina's good will and desire to cooperate with the United States and the other American countries. He expressed confidence that the Río Treaty would be implemented and that the Conference at Bogotá would be successful and that the Argentine Delegation would go there with a sincere desire to cooperate in achieving success.

I know you understand that we have not gone overboard completely nor are we being gullible. However, we do see a lot of encouraging signs and believe that instead of impressing Perón and Bramuglia with our skepticism, we should give them every chance to demonstrate that they are sincere in their protestations of friendship for the United States and a desire to cooperate.

This letter has spread over a somewhat larger field than I had intended when I started it. I think it may be of some interest to the Department and for that reason I am transmitting a copy to the Department by air mail despatch.

We have read with interest your recent telegrams to the Department.

With kind regards,

Sincerely yours,

GUY W. RAY

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<sup>3</sup> For documentation on the Inter-American Conference for the Maintenance of Continental Peace and Security, at Quitandinha, Brazil, August 15-September 2, 1947, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.



711.35/4-2848

*The Ambassador in Argentina (Bruce) to the Secretary of State*

SECRET

BUENOS AIRES, April 28, 1948.

No. 331

SIR: I have the honor to report that during a four-hour conversation yesterday, April 27, with Ray and me, President Perón discussed at length the problem of communism in the Americas with particular reference to relations between Argentina and the United States as affected by the communist problem.

The President said he was not in agreement with the policy followed by the U.S. Government in combating communism in Latin America. He mentioned that his analysis of the situation indicated that the United States attempted to handle the communistic problem by direct government to government dealings and that the communists in turn avoided such government contacts and made their contacts between their agents and the masses. It appeared to him that the United States had now changed its policy in this connection and was attempting to influence the masses in the various Latin American countries through North American labor delegations which are being sent to the various labor conventions which are held from time to time in the capitals of the Latin American countries. He felt that the idea was not bad but that the selection of delegates left much to be desired. His impression was that the majority of American delegates sent to these conventions had strong socialistic tendencies and that they contacted and worked with Latin Americans who represented the extreme socialistic groups which in most cases were closely allied with communist groups. He gave as an example Serafino Romualdi who headed the American delegation visiting Argentina sometime ago and stated that Romualdi worked closely with Ghioldi, the socialist, who is a brother of Rudolfo Ghioldi, a strong communist leader.

We explained to the President that American labor groups and federations were completely independent organizations which were not controlled in any way by the Government and that the participation of these groups in Latin American labor conferences was not the result of any official policy on the part of the United States Government.

He emphasized that the influence of the Mexican Lombardo Toledano<sup>1</sup> was used in favor of Moscow and that Argentina's influence in labor circles in the Americas would be used against the communists. The President's opinion is that it may be useful to have exchanges of

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<sup>1</sup> Vicente Lombardo Toledano, Mexican labor leader.

visits by the labor representatives of various countries but that steps should be taken to screen these representatives as to desirability and to eliminate communists from these trips and meetings.

When requested to give an explanation of the so-called third position with the remark that such a position had given rise to considerable misunderstanding and uneasiness in the United States and in the other countries, the President said he expected to be called on for such an explanation and that he was glad to give it in detail.

President Perón reiterated it must be understood that the so-called third position is a political device for use in peace time and that it has no application and would not even exist in the event of war between the United States and Russia. He said it must also be understood that the third position is definitely anti-communist, and not in any sense a compromise with communism. He added that we must all recognize that capitalism had indulged in certain abuses and that at least to some extent communism had been able to grow because of such abuses; a third position which would not espouse capitalism in the form in which it is popularly conceived in the Latin American mind will have more effect and a wider appeal to labor in Latin America than would an attempt to defend capitalism as opposed to communism. He went on to say that Argentina desired to use its influence in Latin America to the greatest possible extent to combat and eliminate communism.

. . . . .

The President said that in his mind there are two distinct ways of combating communism: one, a process of extermination, and two, buying them off. He said he thought the latter would be more effective and in the long run much less expensive. He explained that by "buying them off" he meant raising wages and improving living conditions to such an extent that there would no longer exist a fertile field for communist activities.

The President said that with regard to Argentina, the communists are not strong enough here to create any real trouble and that in the event of war, the Argentine administration would meet with no problem whatsoever in placing itself on the side of the United States and declaring war against Russia. He remarked, however, that recent happenings at Bogotá should be a lesson to all of us as it demonstrated how easily civil war could break out in many Latin American countries. He expressed the view that should war break out, civil war might easily start in many of the American countries and only after one side or the other won would it be known whether the government would side with the United States or with Russia. He made specific reference to Chile and Brazil as outstanding examples of where the communists probably have sufficient strength to cause real trouble and

make it necessary for the government to engage in civil war which it might or might not win before joining effectively with the United States against Russia. He reiterated that the recent events at Bogotá should open everybody's eyes and make it clear to all of us that such things are definitely possible and that fear of civil war in a number of American countries is not exaggerated.

The President said that unfortunately he did not know the situation in the United States as well as he would like to but that the United States has by far the highest standard of living of any country in the world, and he took it for granted that the United States would be able to control the situation and carry on a war without any serious interference from the communists. He remarked that Argentina has a far lower standard of living than the United States but that the people have a higher standard of living and especially are better fed than any of the other American countries where poverty and misery are widespread in varying degrees. His conclusion was that there would be little real danger from the communists in the United States and Argentina, but we must not forget that there are 19 other American Republics where the communists have fertile fields for their propaganda and organizational activities.

With particular reference to the recent refusal at Bogotá of Foreign Minister Bramuglia to agree immediately to a joint campaign against the communists, the President remarked rather grimly that he was going to talk with us with extreme and unusual frankness. He said that Bramuglia had taken the position he had under direct instructions from himself. He pointed out that prior to the Rio Conference in August 1947 Bramuglia had informed this Embassy of Argentina's desire to enter into some form of agreement with the United States and other American countries to combat communism. He assumed we had so informed the State Department. (In this assumption the President was, of course, correct.) Perón went on to say that when Bramuglia proposed to the United States at the outset of the Rio Conference that an agreement be reached for a joint effort to combat communism, Bramuglia had a most cordial conversation with the Secretary and other high ranking American representatives but was given a "polite brush-off" with the explanation that the United States was not interested and that each country should individually take whatever measures it saw fit to adopt against communism and furthermore any agreement either in the form of a written treaty or a verbal understanding among the American Republics to combat communism was undesirable. He said that at that time Argentina was ready and prepared to join with us and other countries in fighting the communists. He added that at Bogotá they were not quite ready for reasons which he would explain to us in the greatest confidence and with ex-



treme frankness. Here, he brought up the question of the Falkland Islands and remarked that the connection would probably not be immediately apparent to us but he would explain why. He blamed the British for provoking the recent disagreements over the Falkland Islands and the Antarctic regions.<sup>2</sup> He said that the naval maneuvers which had drawn the British ire were nothing new but were maneuvers which Argentina had engaged in before for many years. He said the British were to blame for making too much out of these routine maneuvers and that they sent British warships to the Falkland Islands for what were undoubtedly political reasons not very clear to him. He described the Falkland Islands question as being a matter of "life and death" for Argentina and said that British possession of the Falkland Islands might be described as a fishbone in the throat of every Argentine and the irritation would not be removed until the fishbone was disgorged; every Argentine was convinced of the validity of Argentine claim to Falklands.

The President remarked that we had explained to Bramuglia the position of the United States with regard to the Falkland Islands and he understood clearly that for reasons of our own we had not found it possible to support the Argentine position. He recalled that when we had explained the United States position to Bramuglia, the latter remarked to us he already knew it or "at least had guessed it." The President said frankly that at Bogotá, Argentina wanted the Falkland Islands and we wanted an anti-communist pact and he was merely having Bramuglia "play a little poker."

The President referred to his establishing diplomatic relations with the Soviets. He said that at the time the policy of the United States was definitely unfriendly toward Argentina and so was that of the Soviets. He remarked that one day he got a kick from the United States and the next day a swift kick from the Soviets. He said he thought at that time that it was better to establish diplomatic relations with the Soviets and "get them at least off his neck."

The President emphasized again here his desire to cooperate wholeheartedly with the United States and reiterated that we had his word of honor that in the event of war between the United States and Russia, Argentina would immediately throw its full support to the United States.

When it was explained to the President that unsettled conditions which now exist might make it more difficult for the United States to furnish arms and general supplies, including machinery and equipment, to Argentina, the President said he understood this point and thought it was important for us to know that "Argentina is with us." He recalled that his Minister of War, General Humberto Sosa Molina,

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<sup>2</sup> For documentation on this subject, see volume I.

left last Sunday for the United States and added that he had given Sosa Molina explicit instructions to give the military leaders in the United States the most definite possible assurance that in the event of war between the United States and Russia, Argentina would immediately side with the United States and within 24 hours declare war on Russia. It is obvious that in the President's mind there is little or no doubt that war is inevitable between the United States and Russia. The President emphasized that he is a military man with military training and that he is accustomed to planning things rather than making snap judgments and taking precipitant action. He said that his statement that Argentina would be with the United States was not made lightly but that Argentina's position had been planned over two years ago and that there had been no deviation from this determination and there would be none.

The President said that he hoped we would transmit to the Department of State his categorical assurance regarding Argentina's position as described above and repeated his fervent hope that all of us would understand the seriousness of the situation and realize that there exists in many of the Latin American countries a real danger of revolution and that if war comes, revolutions may well break out in them; in fact, there is a real danger in all of them except in the United States and in Argentina. In this connection he remarked that we should all profit by the graphic lesson given us at Bogotá. He added that whatever the cure for Latin American ills may be, it certainly does not lie in government loans from the United States to the various countries. He thought the sooner we learned this lesson, the better.

Perón seemed anxious to continue exchange of information with us regarding communist activities and said he would send us shortly some information which he thought would be of real interest to us.

Respectfully yours,

For the Ambassador:

GUY W. RAY

*Counselor of Embassy*

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835.00/6-348

*The Ambassador in Argentina (Bruce) to the Secretary of State*

[Extract]

CONFIDENTIAL

BUENOS AIRES, June 3, 1948.

No. 388

SIR:

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#### OUR POLICY TOWARDS ARGENTINA

We cannot hope to have real American unity unless our relations with Argentina are on at least a reasonably friendly basis. We will

have to make the Argentines feel that we are treating them at least as fairly as any of the other American Republics.

Many of us will recall our unhappy difficulties with Mexico during the first World War. We also recall our troubles with Argentina during World War I and II. We succeeded in bringing Mexico around for the second World War but certainly did not do so with Argentina. From what we read in the papers and elsewhere, war with Russia must be considered at least as a possibility. We are convinced that if we carry out a wise and realistic policy towards Argentina, we can have this country on our side in the event of real trouble with Russia.

It is true that every sign of friendship towards Argentina is resented by neighboring countries. If we are to straighten out our difficulties with Argentina, we will simply have to make the neighbors understand that we are still friends of theirs but that we consider it necessary in the interests of hemisphere unity to maintain friendly and cooperative relations with Argentina. There are strong nationalistic elements in Perón's government which are opposed to any form of cooperation with the United States. Perón can be influenced and he is coming more and more to the realization that cooperation with the United States is desirable. Our only course seems to be to take the most possible advantage of this situation and adopt a realistic policy in dealing with Argentina.

The President has expressed the view that if Argentina receives considerable quantities of dollars as a result of the operation of the E.R.P., certain advantages should accrue to American business. He has repeatedly emphasized his understanding of our arguments that he could not expect United States capital to be attracted to Argentina unless conditions were greatly improved with regard to freedom of the press, civil liberties and free enterprise. We expect to begin negotiations shortly with regard to treatment of American business and only time will tell what progress we will be able to make.

As already reported, Perón and many of his followers are working for closer relations with Spain. They have many Fascist ideas but their policy could be just what it is today as a result of the traditional Latin American dictatorship idea even if they had never heard of Fascism.

The policy of Argentina attracts more attention because the country is bigger and stronger, but the government and the situation are probably no worse here than they are in a number of other American Republics. We cannot hope to accomplish anything worthwhile by a policy of unilateral condemnation and turning a cold shoulder to Argentina. Most of the other Latin American countries are offended by Argentine megalomania and overbearing attitude. However, when we appear to be attacking Argentina, sympathy of the other countries immediately shifts to the underdog. If we are to accomplish anything in this hemisphere in plugging for freedom of the press, freedom



of speech, civil liberties and democratic methods, we will have to do it on a multilateral basis with the support of some of the other leading countries and not on the basis of unilateral condemnation on our part of conditions in Argentina.

Respectfully yours,

For the Ambassador:  
GUY W. RAY  
*Counselor of Embassy*

835.00/9-1348

*The Chargé in Argentina (Ray) to the Secretary of State*

[Extracts]

CONFIDENTIAL

BUENOS AIRES, September 13, 1948.

No. 556

SIR: I have the honor to submit the following comments on the present situation in Argentina:

GENERAL SITUATION

Argentina's political situation is so confused at present that not even the highest officials themselves seem to be able to make heads or tails of it, but both in the political and economic situation one development completely overshadows everything else and that is Argentina's acute shortage of dollar exchange. High Argentine officials are still hoping that some miracle will bring them large ECA dollar purchases. Several of these officials have remarked in private conversation that unless a remedy is found for Argentina's dollar shortage it will be necessary to change the country's entire foreign policy.

Perón is quite possibly sincere when he says that he would prefer to have no dealings whatsoever with Russia and the satellite countries. The administration would like to show us that it can get along without dollars, but both the President and the Foreign Minister admit that it is impossible to obtain what they desire from Russia and the satellite countries. Many of the projects included in the Five-Year Plan have been abandoned, at least temporarily, because of a lack of dollars to pay for machinery and equipment, and if the acute shortage of dollars continues, many of these projects will undoubtedly be abandoned entirely.

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ATTITUDE OF THE ADMINISTRATION TOWARDS THE UNITED STATES

Perón has assured us time and again that he is extremely anxious to have American capital come to Argentina. However, his recent public declarations can hardly contribute to attract United

States capital. In his speeches he continues to rave and rant about economic independence and liberating Argentina from the yoke of the foreign capitalists.

Industrialization has become almost a mania with Perón and some of his Cabinet, and they realize that the industrialization program cannot be carried out without American equipment, machinery and technical know-how. If the dollar shortage continues, Argentina will have to abandon a good part of its Five-Year Plan.

It seems likely that if some ECA dollar purchases are made in Argentina, and so long as there is hope of additional purchases, Perón and his administration will indicate a desire to cooperate with the United States. Argentina's whole policy for the last year or two has been based on the assumption that war between the United States and Russia is inevitable. Perón feels that Argentina should not be caught betting on the wrong horse for a third time, and that in the war to come between the United States and Russia, Argentina should cast its lot immediately with the winner, which he believes will be the United States. He thinks that as allies we would get along much better, and that Argentina would not find itself in the unpleasant position of seeing lend-lease and similar "favors" extended to the other Latin American countries while Argentina was left out in the cold.

If Perón should reach the conclusion that there is no hope of increasing exports to the United States or of obtaining ECA dollars, his position would become more desperate, he would be filled with resentment against the United States and his course of action would probably become more and more totalitarian. Our relations with Argentina would undoubtedly become progressively more difficult.

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#### SUMMARY

Argentina's financial and economic situation appears to be growing steadily worse. Most of these economic ills stem from a bad political situation. If the economic situation becomes worse, the political situation will probably deteriorate all the more rapidly. The more the administration finds itself in a tight spot, the more it is likely to become hysterical. It will probably follow the totalitarian pattern of trying to find an object on which the public can vent its resentment and distract attention from the real problem. If at least a partial solution can be found of Argentina's dollar difficulties through increasing exports to the United States and/or ECA purchases, the administration may be able to weather the storm. If not, it will probably become more and more openly totalitarian and our relations with Argentina could become really difficult. At best, Argentina will continue to be a serious

problem for us. There are many rumors of Cabinet changes, but they are so numerous and so conflicting that it hardly seems worth while to report them to the Department.

Respectfully yours,

GUY W. RAY

835.00/10-148

*The Chargé in Argentina (Ray) to the Secretary of State*

[Extracts]

CONFIDENTIAL

BUENOS AIRES, October 1, 1948.

No. 609

Subject: September 24 Plot to Assassinate The Peróns.

SIR: I have the honor to furnish herewith a résumé of events connected with the alleged plot to assassinate the Peróns.

As approximately 2:00 a. m. the morning of September 24 Chief of Police General Bertollo called in representatives of the press. He announced to them that a dozen people had been arrested, charged with plotting to assassinate President and Mrs. Perón on October 12 as the two left a ceremony scheduled to be held in the Colón Theater in celebration of continentally-observed *Día de La Raza*. The best known of those arrested was Cipriano Reyes, one-time labor leader who subsequently became a member of the National Chamber of Deputies, but who fell from power after he fell out of grace with Perón. The list included three priests, two of them Navy chaplains. Bertollo also said that people in Uruguay were implicated, principally former American Foreign Service Auxiliary Officer John Griffiths.<sup>1</sup>

Beginning with late Friday (the 24th) editions we were lambasted in all administration papers, particularly in those which hew solidly to the Perón party-line. Both front page streamer headlines and individual story captions had it that the plot was conceived in the United States and that orders for the Peróns' assassination came from the United States.

With regard to the "plot" itself, and to the terrific lambasting the United States has been subjected to in all pro-administration papers, but more so in all-out pro-Perón *La Epoca* and *Critica*, no proof has

<sup>1</sup> Mr. Griffiths, a commission agent in Buenos Aires, had been employed from 1941 to 1946 as a cultural attaché and as a special assistant in the Embassy in Buenos Aires.



yet been furnished. With regard to the motives why we should come in for such a lambasting, at a time when the Ambassador is in the United States attempting to find an outlet for Argentine products which would provide sorely needed dollar exchange, all that can be offered is speculation.

Some of those arrested, if not all, unquestionably think illy of the administration, for one or another reason. They may have discussed ways and means to eliminate Perón. Cipriano Reyes, who because he failed to see eye to eye with Perón was reduced to a minor local union post, may have mentioned Griffiths' name (Griffiths denies having had any connection with Reyes since the two talked here more than two years ago).

However, the police haul was so small and the individual fish so insignificant that suspicion arises that if the whole thing was not a complete hoax it was much ado about little, and the ado must have had a broader purpose. This feeling, either that the whole thing was a hoax, or that more was made of the discontent of a few insignificant people than was warranted, is pretty widespread. And the question is asked why, if the assassination was not to be carried out until October 12, it was deemed necessary to make the announcement of its discovery in the early morning hours of last Friday, only the day before a pro-constitutional-reform monster mass meeting was scheduled to be held.

Several theses have been advanced for the great to-do raised. One was that Perón sought to draw attention away from the continuing deterioration of the economic situation. Another, that he wanted to give people something to think about which would cause them to forget the hysterical hanging threat he made at Santa Fé on September 8 past. A third, that barbs thrown by opposition representatives in the Chamber of Deputies had become overly annoying. Yet another, that there has been so much pulling and hauling and jockeying for position among top officials that he felt it necessary to provide something on which all could agree, i.e., to pledge allegiance once more to the *líder*. Still further, that in a desire to cow the opposition to the point of abstaining from putting up candidates for election as Constitutional Convention delegates he would stop short of nothing, even of committing a hoax.

Respectfully yours,

For the Chargé d'Affaires ad interim:

THOMAS J. MALEADY  
First Secretary of Embassy

835.00/10-1148

*Memorandum by Mr. Henry Dearborn of the Division of River Plate Affairs* <sup>1</sup>

CONFIDENTIAL

[WASHINGTON,] October 11, 1948.

Subject: Important Political Developments During Month

*General situation:* The general situation in Argentina is confused and satisfactory explanations are not available for all that has been happening during the past month. Our Embassy tells us that high Government officials are not aware of just what is going on. The dollar shortage overshadows all other problems and it is suspected that most of what has happened can be traced to economic ills.

On September 8 President Perón threatened his opposition with hanging. On September 24, the Chief of Police charged that John Griffiths was heading a plot to assassinate the Peróns and Perón himself implied that U.S. funds were behind the plot. On October 2 four U.S. newsmen had their cables refused at the order of the Government. While this presumably had something to do with Perón's charge that foreign correspondents were spies and saboteurs, we still do not know what the Government meant to accomplish.

The reasons behind the seemingly hysterical actions of the Government during the past month have been given as: (1) the desire of the President to whip up enthusiasm for his constitutional reforms, (2) the need for a scape-goat to divert the country's attention from the acute dollar shortage, inflation, and the increasing number of strikes and unrest in labor circles, and (3) an attempt to intimidate all foreign correspondents by actions against some of the principal ones.

*Griffiths:* We have no indication that Griffiths was implicated in or knew of the plot against the Peróns. While there were rumors that Argentina might ask for his extradition, the Argentine judge on the case has said that this would not be asked for and the President of Uruguay <sup>2</sup> has said he would not permit extradition unless he and we were satisfied with the evidence.

The arrest in Buenos Aires of two Uruguayan women and the Griffiths case have caused considerable *ill feeling between Argentina and Uruguay.*

Argentina has taken steps greatly to increase its *consular service*, especially by opening new offices, some in places where there is little apparent justification.

<sup>1</sup> Addressed to the Director and the Deputy Director of the Office of American Republic Affairs (Daniels and Woodward, respectively), and the Chief of the Division of River Plate Affairs (Tewksbury).

<sup>2</sup> Luis Batlle Berres.

The Argentine Congress adjourned without ratifying the *Rio treaty* or the *IRO charter*. Congress does not meet again until next May 1.

*Asociacion Noticiosa Argentina*, an Argentine news agency, is expanding fast. It is to operate as a news agency in many countries but in the U.S. it will, in addition, diffuse propaganda. It has a competent staff and is doubtless subsidized wholly or in part by the Argentine Government.

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711.35/11-448 : Airgram

*The Ambassador in Argentina (Bruce) to the Secretary of State*

SECRET

BUENOS AIRES, November 4, 1948.<sup>1</sup>

A-502. In a call on me on October 29, Brigadier General Arturo Bertollo, Chief of the Federal Police, immediately launched into an explanation of why he desired to see me. He prefaced his remarks by mentioning that several events which had taken place during my absence in the United States might have appeared to imply that there exists an unfriendly feeling in high circles of the Argentine Government toward the United States. He stated that such was not the case and that the events referred to had been necessary in order to maintain for the Government the strong support of the working classes. General Bertollo then described how the headquarters of the branch of the Cominform which controls Latin America is located in Paris with an executive office which carries out its directives, located in Mexico City. He explained how strong the Communists are in Central American countries and also in Chile, Bolivia, Paraguay and Brazil.

In Uruguay and Argentina, however, the Communists have not made much headway due to the strong and popular democratic governments in power. He explained why Argentina, surrounded by countries in which unrest, due to the Communist activities prevailed, found it necessary at times to take strong measures against opponents of the Government. He further stated that a united America was the only solution to the problem and that such unity was one of the principal aims of President Perón. In order to obtain this united America it was necessary to educate the masses and that such a process would take time.

General Bertollo stated that there were three general groups which were working against the present government in Argentina, and in addition working for disunity and confusion among the American Republics. These three groups in so far as Argentina is concerned are

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<sup>1</sup> The source text was mailed November 12, 1948, replacing an earlier text of the same document mailed November 5.



the Communists, the opposition political parties and the capitalists. He stated that although not communist the political opposition and the capitalists were accomplishing, through their activities, the very thing which the Communists most desired. In other words, by opposing and trying to undermine the present government they were aiding the Communists and might just as well be working with them.

General Bertollo then referred back to the time of Ambassador Braden, mentioning that at that time, in the State Department, there were numbered among Braden's supporters, Mr. Briggs, presently Ambassador to Uruguay, Mr. Wright, Gustav Durand and Robert Newbegin<sup>2</sup> and that Mr. Griffiths, as Cultural Attaché, used Newbegin as his contact with Mr. Briggs. He mentioned that at this time there were undercover groups of men gathering information for Mr. Braden and that these groups still exist and are now controlled by Mr. Griffiths who he believes is financed by American capitalists. General Bertollo said that there are five of these ex-Braden-Griffiths-controlled, anti-Argentine groups functioning at present time in Brazil, Paraguay, Bolivia, Chile and Argentina. He has no proof that Griffiths is a Communist but does believe that some of the men working for Griffiths are members of the Communist party.

The primary reason he offered for his belief that capitalists are backing Griffiths is the fact that Griffiths' henchmen are paid in American dollars. General Bertollo believes that Ambassador Briggs supports Griffiths and even protects him when the need arises. At this point I interjected that such a belief was entirely without foundation, in fact so ridiculous that it hardly merited comment. When asked if there were other Americans involved in this plotting General Bertollo indicated that there were, but that their number was not great. He further stated that there were many more people than those who have already been arrested involved in the recent plotting against President Perón but that revelation of their names might cause serious reaction in the country and work to the benefit of the Communist party.

General Bertollo stated that during a conversation with the President of Uruguay he was told that the United States had some 500 secret agents working in Uruguay. When asked by the Ambassador for further information upon this subject he stated that all he knew was what the President of Uruguay had told him. He did, however, state that he, General Bertollo, and the Government of the Argentine

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<sup>2</sup> Spruille Braden was Ambassador in Argentina from May until August 1945 and Assistant Secretary of State for American Republic Affairs from August 1945 to June 1947. Ellis O. Briggs was Director of the Office of American Republic Affairs from October 1945 until his appointment as Ambassador to Uruguay in July 1947. James H. Wright was special assistant to Assistant Secretary Braden. Gustavo Durand was a special assistant in the Embassy in Argentina in 1945. Robert Newbegin was assistant chief of the Division of Caribbean and Central America Affairs in 1945 and chief of the Division of Central America and Panama Affairs in 1946.

did have full knowledge of all foreign intelligence agencies operating in this country.

General Bertollo's visit probably was prompted by my remarks to the President following my return when I commented on the apparent deterioration of the Argentine-American relations in my absence and by a desire on their part to reassure me and explain the Government's actions at the time. It was no doubt with this in mind that he stated that the events in question had been necessary to maintain the support of the working classes. This intimation that the affair was rigged for domestic political purposes is in ill accord however with his subsequent reiteration of the existence of a capitalist plot and Griffiths complicity therein. In the absence of any proof, it is difficult to judge of the depth of their conviction in such an intrigue but it is notable that occasion was again taken to bring these charges to the attention of the Embassy.

BRUCE

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835.00/11-648 : Telegram

*The Ambassador in Uruguay (Briggs) to the Secretary of State*

SECRET

MONTEVIDEO, November 6, 1948—2 p. m.

380. Ambassador Bruce has kindly sent copy his secret airgram 502 November 4 describing call on him of Buenos Aires Police Chief Bertollo in which latter reportedly made certain statements about me in regard to which, as Department well aware, there is no truth whatsoever.

Equally silly allegations reported in airgram made by Bertollo involving my alleged relations with John Griffiths whom I have seen only once (last May) since his arrival Montevideo. Furthermore when Embassy Buenos Aires last April telegraphed suggesting informal representations by Embassy Montevideo to Uruguay Foreign Office seeking special permission for entry Griffiths, then under Argentine deportation orders, we explained to Embassy Buenos Aires in reply why we thought such step undesirable adding that unless some compelling aspect case unknown in Montevideo we preferred not approach Uruguay Government. No approach made.

Griffiths proceeded US on deportation from Argentina and apparently obtained Uruguay visa there on own initiative.

As to other aspects Bertollo charges against Griffiths neither Chancery nor CAS Montevideo aware any proof thereof or whether "proof" mentioned in Buenos Aires telegram 989 October 4, 5 p. m.<sup>1</sup> has since been made available.

Sent Department 380, repeated Buenos Aires.

BRIGGS

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<sup>1</sup> Not printed.

835.00/11-1048

*Memorandum by Mr. Henry Dearborn of the Division of River Plate  
Affairs*

SECRET

[WASHINGTON,] November 10, 1948.

Subject: Important Political Developments During Month

The blasts which President Perón and his Government were firing in the direction of the United States early in the month abated toward the latter part. He told Ambassador Bruce that he had to do it to maintain strong labor support for the Government, but that there was really no change in his friendship for the U.S.

The plot against the lives of President and Mrs. Perón continued to receive publicity. The most reasonable explanation for it seemed to be that the Government set a trap to catch some of its enemies, especially Cipriano Reyes, and that the victims were something less than smart to let themselves be caught so easily. The charges against Griffiths dropped out of sight toward the end of the month.

A little more is known about the Government's proposed constitutional changes, but not much. It seems likely at this late stage that the drafts of the amendments will be sprung on the country by the Peronistas and that there will be little debate. There will apparently be something about Workers' Rights, economic independence, a State-directed economy, and limitation of property rights.

The Argentine Government turned down our proposal for a condominium in the Antarctic—even as a basis of discussion. The note was, however, conciliatory in tone which indicates, to me at least, that Argentina's nationalistic Antarctic expert, Pascual La Rosa, was not given the pleasure of replying to us as might have been expected.

A note which was most certainly drafted by La Rosa was received by us rejecting our reservations with respect to Argentine pronouncements asserting sovereignty over the Argentine continental shelf. This note was nationalistic and uncompromising.

The Department received from many quarters reports of Argentine intervention in the internal affairs of Bolivia, Chile, Paraguay, Peru and Uruguay. Some of these reports were more credible than others but proof was lacking in all cases.

The Spanish Foreign Minister visited Argentina and was given an enthusiastic reception by Argentine officialdom. There were reports that popular enthusiasm was not so great and that he must have observed this. While in Argentina he signed agreements on immigration, reciprocal military service and cultural matters.

*Current Situation:* The Perón Government is believed to be as firmly in the saddle as ever, though it is increasingly embarrassed by the dollar shortage.



711.35/12-948

*Memorandum by the Director of the Office of American Republics  
(Daniels) to the Acting Secretary of State*

CONFIDENTIAL

[WASHINGTON,] December 9, 1948.

Subject: Argentine Foreign Minister's call on Mr. Lovett

When Dr. Juan Atilio Bramuglia, the Foreign Minister of Argentina, calls on you at 3 p. m. December 9, it is recommended that you commend his diligent and capable efforts during November as President of the UN Security Council, that you thank him for his past co-operative attitude with officials of our Embassy in Buenos Aires, and that you express the hope that Argentina will soon ratify the Rio de Janeiro Defense Pact <sup>1</sup>. (The Argentine Congress adjourned September 30 without ratifying and the next regular session meets May 1.) Aside from these points it might be preferable for you not to take up specific problems in U.S.-Argentine relations.

It is likely that Dr. Bramuglia will bring up some problems on his own initiative since he has stated he would take advantage of his visit to discuss matters of policy affecting both nations and to obtain information on general questions of interest to Argentina. He has also stated that his talks would deal with political rather than economic problems.

Among the political problems Dr. Bramuglia might wish to discuss are hemisphere defense and related topics, such as U.S. sales of arms to Argentina. He might even hint that in any future war, Argentina would take care of southern South America, thus permitting the US to concentrate on other areas, if the US will assist Argentina to strengthen its armed forces. He will probably say that Argentina would support the US in any war with the USSR. It is recommended that we give Argentina no reason to expect special consideration either as defender of a region or as a purchaser of arms. It would be well to put in a word for hemisphere unity as opposed to regionalism.

It is not unlikely that Dr. Bramuglia will bring up the question of Communism. President Perón has told Ambassador Bruce that he thought it would be a good idea to have an inter-American conference on Communism and said he would submit a proposal for action to this Government.

Dr. Bramuglia may refer to the British-Argentine dispute over the Falkland Islands and/or the Argentine claims in the Antarctic. This Government takes no sides on the Falkland question. It is recommended that if the Minister mentions the Antarctic you express the hope that Argentina and the United States will be able to have a full

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<sup>1</sup> Department of State Treaties and Other International Acts Series No. 1838, or 62 Stat. (pt. 2) 1681.

exchange of views through diplomatic channels with the other interested countries regarding a solution of that problem, which in contrast to some of the great world issues should be a problem for amicable discussion and solution among friendly nations. You might express regret that Argentina saw fit to turn down even as a basis for discussion the U.S. proposal for a condominium in the Antarctic.

It is possible that Dr. Bramuglia will bring up Argentina's dollar shortage and possible attempts to alleviate this situation. It is recommended that you thank him for any suggestions he may have and say you will refer them to the appropriate officials of the Government.

It is possible that the question of an invitation to President Perón or his wife to the US may arise. If so, it is recommended that you say this Government would be pleased to have both of them come but has not issued an invitation or encouraged one in other quarters because it is feared that US press, labor and intellectual groups which are opposed to the Argentine Government's activities in their spheres, would create a situation which would embarrass rather than improve relations.

Dr. Bramuglia will probably ask you if it will be possible for him to call on Secretary Marshall.

PAUL C. DANIELS

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710.35/12-948

*Memorandum of Conversation, by the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] December 9, 1948.

Participants: Dr. Juan Atilio Bramuglia—Argentine Foreign Minister  
Dr. Jerónimo Remorino—Argentine Ambassador  
Mr. Daniels—Director, ARA  
Mr. Woodward—Deputy Director, ARA  
Mr. William D. Pawley<sup>1</sup>  
Mr. Sohar R. del Campo—Interpreter  
Mr. Tewksbury—RPA

Dr. Bramuglia expressed his pleasure at being able to visit Washington, and, after the usual amenities, Dr. Bramuglia stated that he would only take up matters of a political character since problems in the economic field were entirely outside his scope. He said, however, that the political problems bear directly on and affect all economic problems.

I expressed the satisfaction at the opportunity to discuss the political

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<sup>1</sup> Mr. Pawley served as Ambassador in Brazil from April 1946 until March 1948.

problems since these have assumed major proportions in recent weeks and I had been somewhat concerned at the apparent uneasiness in certain of the other American republics.

1. *Argentina's policy is that of non-intervention.* Dr. Bramuglia said that he was glad I mentioned this since he was anxious to have the opportunity of definitely clarifying any misunderstanding which there might be regarding Argentina's foreign policy. He stated that President Perón and his government was definitely of the opinion that Argentina should not interfere or intervene in the internal affairs of any other government. He expressed the opinion that, even though Argentina regarded certain political activities and conditions as unfavorable, the problems of each country should be solved within the country itself and without outside interference.

I suggested that it might be desirable if President Perón or he took an opportunity to set forth publicly this policy of his Government since such a statement publicly made might help to eliminate such uneasiness as now exists. Dr. Bramuglia indicated that such a statement could readily be made but expressed the opinion that probably little would be accomplished by it since those who professed uneasiness frequently did so to distract attention from their own internal problems.

2. *Argentine relations with Chile.* Dr. Bramuglia cited, as an example of irresponsible action, the recent developments in Chile. He said that the election of Gonzalez Videla hinged on the support of the Communist Party. He explained that, ever since election, the position of Gonzalez Videla has been uncertain and that, to gain support and maintain himself in office, he has first leaned to the center and then to the right, abandoning some of his original supporters in the process. He pointed out that there have been a number of incidents which have been, to say the least, annoying to Argentina. He quoted as an example the action of the Chilean Government in breaking relations with the Soviet Government.<sup>2</sup> He stated that very little notice was given to the Argentine Government and that there had been no consultations with Argentina regarding the breaking of relations with the Soviet. When Chile also broke relations with Yugoslavia, no notice was given to Argentina, and the Yugoslav Chargé and another employee of the Yugoslav Legation were taken by military airplane to Mendoza and left there without notice to the Argentine Government. Both were immediately arrested by Argentine authorities since they had entered without the necessary papers. This resulted in embarrassment to the Argentine Government but no protest was made to Chile.

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<sup>2</sup> For previous documentation on the United States position toward labor violence in Chile and Chile's breach of relations with the Soviet Union, see *Foreign Relations*, 1947, vol. VIII, pp. 497 ff.



There have been a number of other incidents of a similar character, which the Argentine Government has either ignored or passed off with little notice.

The latest incident Dr. Bramuglia attributed to a desire of the Gonzalez Videla government to detract attention from its serious internal problems. Dr. Bramuglia said that it is quite possible that the junior official referred to had made a statement to the effect that a military government was the type best suited for the American governments. He said that such a statement clearly did not represent the official opinion of the Argentine Government and that it was apparently made at a small political meeting and not at an official affair. Dr. Bramuglia states that he does not personally know the person who is reported to have made the statement and that, in his opinion, undue emphasis has been given to it. He stressed the fact that on a number of occasions Argentina has gone to considerable trouble to cooperate with Chile in matters of mutual interest and he expressed the opinion that had not the position of Gonzalez Videla been somewhat precarious this incident would not have been permitted to flare up.

3. *Argentine relations with Uruguay.* Dr. Bramuglia prefaced his remarks on Uruguay with the statement that his wife is a Uruguayan and that he has spent a good deal of time in Uruguay and has known President Batlle Berres intimately for at least fifteen years. In discussing Argentine relations with Uruguay, he again stressed the fact that Argentine officials definitely have not intervened in Uruguayan affairs and that the government has no intention of doing so. He emphasized the fact that Batlle Berres and his government have always been strongly opposed to the Perón government. He remarked that, prior to Perón's election to office, Batlle Berres visited Buenos Aires and made a strong public speech against the election of President Perón. Dr. Bramuglia said he regarded this as direct intervention in Argentine affairs but that the government had overlooked it and had not given serious importance to it. He stated that, on the contrary, Argentine officials had at no time participated in any election campaign or in other attempts to direct political affairs in Uruguay.

Dr. Bramuglia referred to the recent restrictions placed on the exportation of live cattle to Uruguay from Argentina. He said that this action was entirely justified due to the enormous and abnormal increase of exports of live animals to Uruguay to the detriment of the packing house industry in Argentina. He stated that there was no basis for an assumption on the part of Uruguayans that this action had political implications. He explained that imports have risen five or

ten fold and were entirely out of proportion to the normal movement. He further explained the shortage which has existed in Argentina and referred to unemployment in a number of the *frigoríficos*.

With reference to the exchange restriction regarding tourist traffic to Uruguay, Dr. Bramuglia stated that he was not entirely in accord with the measure but that actually he was not familiar with all of the economic factors involved. He pointed out that those directly responsible for the maintenance of exchange rates and economic conditions were the ones who must decide what measures to take to conserve exchange resources, etc. He assured me that the regulations governing the availability of exchange for travel to Uruguay were in no way related to political relations between the two countries.

Dr. Bramuglia spoke in a very friendly way regarding Uruguay and said that all countries recognized that Uruguay was a truly democratic country. He compared Uruguayan politics to family politics and remarked that in Uruguay all political matters are considered vital by those interested in the particular problem and that the party line is most important. He said that the Batllistas become worked up about their political problems, the Colorados are equally intense, and the same holds for the Católicos, etc. Each group regards its factional interest as a dominant factor and unfortunately the Batllistas feel strongly against the Perón government.

With reference to arms purchases,<sup>3</sup> Dr. Bramuglia stated that on several occasions he discussed this subject with President Batlle Berres. He has frankly explained to the President that Argentina must continue its defense program which was neglected during the past war. He pointed out that Brazil has much more in the way of modern military equipment than Argentina and that new equipment is therefore justified for defense reasons and that it is in the interest of Uruguay that Argentina be well armed as Argentina would serve to guarantee Uruguay's security in the case of a new world struggle. Dr. Bramuglia intimated that, when discussing the matter with President Batlle Berres, he appeared to understand and to accept his statements. Unfortunately certain elements in Uruguay apparently continue to stress the danger to Uruguay of Argentine rearmament.

4. *Argentine relations with Paraguay.* Dr. Bramuglia mentioned that, as far as Paraguay was concerned, we all knew of the unsatisfactory conditions prevailing in that country. He remarked that there was, of course, a great deal of unrest and extremely disturbed political conditions. He remarked, however, that the internal political situation was a purely Paraguayan matter, and he again stressed the

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<sup>3</sup> For documentation on Argentine armament procurement, see pp. 310 ff.

fact that Argentina had no intention of interfering in the internal affairs of neighboring countries.

5. *Recognition of de facto governments.*<sup>4</sup> With reference to the recent political upheavals in Peru and Venezuela, Dr. Bramuglia said that Argentina had, in connection with Resolution Number XXXV of Bogotá,<sup>5</sup> continued her diplomatic relations with both countries. He remarked that it was ridiculous to think that this action implied any participation on the part of Argentina in the recent events. At this point I remarked that we had heard rumors of this sort but that I had received no evidence of Argentine complicity in these events.

Dr. Bramuglia said that the uprising in Peru in no way surprised him since he had known for a long time that there was a great dissatisfaction with the government and of course a previous attempt had been made in the Calláo uprising.

Dr. Bramuglia also said that he remarked in Bogotá to friends that he considered the situation in Venezuela highly uncertain. While he regarded Gallegos as an outstanding intellectual, he did not consider him a practical administrator and felt that the Gallegos government was unduly tolerant of the radical elements. He said that the uprising in Venezuela did not, therefore, surprise him particularly, since he felt that some of the conservative elements distrusted the Gallegos administration. Dr. Bramuglia pointed out that public references to the fact that one of the military officials connected with the revolt had visited Argentina and might, therefore, imply Argentine participation or influence in the uprising were, of course, ridiculous. He said that the officer had, it was true, visited Argentina but said that this was like the visit of any other military official of a friendly country and had no significance whatever.

At the conclusion of Dr. Bramuglia's discussion of recent events in Latin America, I expressed my appreciation for his assurances that Argentina had no intention of interfering in the internal affairs of neighboring countries. As Dr. Bramuglia was already due at his next appointment, I told him that there were two matters which I had agreed to mention and then referred very briefly to reports which we have received regarding a limitation of news print supplies to publishers in Buenos Aires which in the United States have been regarded by some as indicating pressure on specific publications; and the difficulty which the American and Foreign Power Company has had with respect to certain properties in various provinces of the republic. Dr. Bramuglia assured me that he would look into both matters on his return to Buenos Aires.

PAUL C. DANIELS

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<sup>4</sup> See *ante*, pp. 98 ff.

<sup>5</sup> See Pan American Union, *Final Act of the Ninth International Conference of American States*, Washington, 1948, p. 50.



711.35/12-948

*Memorandum of Conversation, by the Acting Secretary of State*

CONFIDENTIAL

[WASHINGTON,] December 9, 1948.

Participants: Dr. Juan Atilio Bramuglia—Argentine Foreign Minister  
Dr. Jerónimo Remorino—Argentine Ambassador  
Mr. Lovett—Acting Secretary  
Mr. William D. Pawley  
Mr. Sohar R. del Campo—Interpreter  
Mr. Tewksbury—RPA

Dr. Bramuglia expressed his sincere regret at the illness of Secretary Marshall and inquired as to how he was progressing. I explained to the Minister the nature of the Secretary's operation and pointed out that, even though under the new medical practice of encouraging patients to get up as quickly after an operation as possible, the Secretary was still in a weak condition and regretted exceedingly that he would not be able to see the Minister during his present visit to Washington.

I expressed my pleasure in having the opportunity to discuss matters personally with the Minister and made brief reference to his able work in Paris.

Dr. Bramuglia explained that he was carrying out the wishes of President Perón when he indicated the desire of Argentina to cooperate with the United States and the Western European nations in their efforts to strengthen the western democratic ideals. He stressed the importance of the security of the Western Hemisphere and said that his Government definitely supported the idea of Western Hemisphere solidarity. He said that Argentina would cooperate in measures to restrict communism in the Western Hemisphere. He stated that Argentina would immediately support the other American republics if there was any threat to the hemisphere from this source.

The Foreign Minister also discussed at some length the desire of his Government to work in harmony with this Government at inter-American conferences. He expressed some concern at the apparent failure of our Government to discuss frankly in advance positions which we proposed to take regarding certain problems at forthcoming meetings. He specifically referred to his effort, through our Embassy in Buenos Aires, to have a preliminary discussion of positions to be taken at the Rio Conference and at the Bogotá Conference. He felt that the two countries might work more effectively together if there were an opportunity for prior discussion of problems to be considered.

I explained that I fully understood his feeling in the matter and that, whereas, it had been possible to have prior discussion of certain

problems, there were certain factors which made it difficult to cover all points in this manner. I mentioned that the last Congress had been of the opposition party and this had in some instances made it difficult to reach a definite position until just prior to the holding of the conference. There was also the question of security which in the past has been the cause of considerable concern [to] the Department, since information regarding private discussions became public and caused embarrassment. I pointed out that there was, of course, the necessity of avoiding the impression among other countries that a working agreement was being reached with a single country without consultation with others.

The discussion then turned to the subject of political conditions in neighboring states.

Dr. Bramuglia emphasized the fact that, whereas, his Government felt that in a number of neighboring countries the political situation was not all that might be desired, he wished to assure me that the Argentine Government had no desire or intention of interfering in any way in the internal political problems of the neighbors. He made particular reference to the recent accusations in Chile of Argentine interference. He outlined in some detail irritating actions by Chile which have been ignored or passed over with little notice by the Argentine Government. He intimated that the Government of Gonzalez Videla has been shaky almost ever since it took office and that President Gonzalez Videla has been making a frantic effort to solidify his position. He regarded the latest accusation against a minor Embassy official as merely another effort on the part of President Gonzalez Videla to divert the attention of the public in Chile from the unfavorable political and economic situation which exists there. He considered the charges against Argentina as ridiculous but admitted that an under official, whom he did not even know, might have made some indiscreet remarks but that these should not be taken as representing the views of his Government. Dr. Bramuglia also made brief reference to the political situation in Uruguay and Paraguay.

With reference to the recent overthrows in Peru and Venezuela, Dr. Bramuglia denied any possible connection with the movement in either country. He reiterated his previous statement that Argentina would not in any way interfere in the internal affairs of other nations. He stated that the Argentine recognition of both new governments was in accordance with their interpretation of the Bogotá resolution regarding the continuation of diplomatic relations.

As the hour was getting late and as there were other matters of mutual interest to be discussed, it was agreed that a further meeting would be held on Saturday, December 11.

ROBERT A. LOVETT

711.35/12-948

*Memorandum of Conversation, by the Acting Secretary of State*

CONFIDENTIAL

[WASHINGTON,] December 11, 1948.

Participants: Dr. Juan Atilio Bramuglia—Argentine Foreign Minister  
Dr. Jerónimo Remorino—Argentine Ambassador  
Mr. Lovett—Acting Secretary  
Mr. William D. Pawley  
Mr. Sohar R. del Campo—Interpreter  
Mr. Tewksbury—RPA

The Argentine Foreign Minister inquired concerning the Secretary's condition, and I gave him information regarding his progress. I again explained that the Secretary was very sorry that he would not be able to see the Minister.

Dr. Bramuglia first discussed his satisfaction at having seen Mr. Howard Bruce of ECA.<sup>1</sup> He explained that economic matters were completely outside his field but that Mr. Bruce had been very reassuring to him. I explained that I had discussed the possibility of Argentine purchases with Mr. Bruce prior to his visit and that he had been optimistic.

Dr. Bramuglia explained that Mr. Bruce had clearly pointed out that it was necessary to have the maximum utilization of US dollars in the ERP and that it was hoped that in offshore purchases every facility would be given by the Latin American countries for the acceptances of the currencies of the purchasing country and that it was hoped that a substantial part of the purchases would be paid for by the importation into Latin America of European products. Dr. Bramuglia said that he appreciated this position if the maximum benefits from ERP were to be achieved. He said that Mr. Bruce intimated that, in addition to the purchases referred to above, there would probably be purchases in Argentina amounting to several hundred million dollars. At this point Mr. Pawley said that he thought there might be some misunderstanding regarding the amount, for he understood Mr. Bruce to indicate that purchases in the near future might run to a hundred million dollars. After a general discussion, the Minister agreed that Mr. Bruce said it was impossible to make any definite estimate as to the probable financing of Argentine products, and he agreed that the rough estimate of one hundred million dollars might prove to be high or low. Dr. Bramuglia appeared to be entirely satisfied with his talk with Mr. Bruce and apparently felt optimistic as to future ECA relations.<sup>2</sup>

<sup>1</sup> Deputy Administrator of the Economic Cooperation Administration.

<sup>2</sup> Documentation on the policy and action of the Argentine Government in the international trade area is filed, in part, under 711.35, 611.3531, 835.5151, 840.50 Recovery, 811.503135, 103ECA, 835.1561, 835.5034, in Department of State files.



Dr. Bramuglia then stated that his field was that of politics and not of economics and that he would much prefer to discuss the field with which he was familiar. He repeated some of his statements of the preceding meeting regarding the desires of Argentina to cooperate with the nations of the Western Hemisphere in important world problems, specifically mentioning communism.

After some general discussion, I took the opportunity to discuss press relations with Argentina. At some length I outlined to Dr. Bramuglia the strong feelings which developed among the press in the United States, which were supported by slogans stressing the dangers of totalitarianism, fascism, dictatorships, Nazis, etc. I explained that, whereas, the press sentiment had been vehement in its denunciation of these types of government and against specific governments, I felt that a more temperate attitude was gradually developing. I stressed the fact that the press regards itself as a sort of fourth power which operates with complete independence and resents any action which it regards as curbing its activity. I expressed regret that the press, both in this country and in Argentina, has at times severely criticized the government in the other country and that this obviously complicates our relations. I expressed the hope that in the United States and in Argentina too much emphasis would not be given to press items of a derogatory character, particularly in those cases where the criticism was of an irresponsible and unfounded character. I stressed the fact, however, that there were certain measures which have been taken in Argentina which have appeared to be of a restrictive character and which have been construed by the American press as of a dictatorial nature and that this has resulted in unfavorable comments. I expressed the hope that, if there had been measures of this type taken, they would be corrected in order not to unnecessarily aggravate our friendly relations. Dr. Bramuglia recognized the importance of the press and expressed the hope that friendly relations with it could be maintained.

Mention was again made of the desire of the Argentine Government to have an opportunity to discuss in advance certain problems of mutual interest which might be brought up at various conferences. Mr. Pawley mentioned the fact that, in connection with the forthcoming economic conference to be held in Buenos Aires, it might be advantageous to have preliminary discussions with Argentine officials as to certain proposals which might be jointly supported. Mr. Pawley remarked that it sometimes happened at inter-American meetings that there were twenty republics lined up against the United States. He felt that certain projects of interest to both nations could profitably be discussed in an effort to reach a practical stand which could be supported by the two countries. Dr. Bramuglia felt this would be highly desirable.

On leaving, we both expressed the pleasure of having had the opportunity to discuss matters of mutual interest in this frank and personal manner.

ROBERT A. LOVETT

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711.35/12-2148 : Telegram

*The Acting Secretary of State to the Embassy in Argentina*

SECRET

WASHINGTON, December 23, 1948.

1075. Reurtel 1237 Dec. 21.<sup>1</sup> Conversations between Bramuglia and Lovett as well as with other US officials were on most friendly and frank basis and we of course wish to be as helpful as possible to Bramuglia in his report concerning results his visit. Apparently Bramuglia misunderstood certain statements in discussions possibly due deficient interpreting by his aide and Dept leaves to your judgment and discretion method of clarifying points mentioned urtel as follows:

1. Amb. Pawley who was present at conversations between Bramuglia and Howard Bruce stated at meeting of Bramuglia and Lovett that Bruce made rough estimate indicating possible financing of \$100,000,000 in Arg for off-shore purchases in near future but emphasized this was only an estimate subject to modification.

2. Re economic conf Buenos Aires Pawley suggested advisability of discussing certain projects which might be mutually supported by both govts thus avoiding possibility of 20 Amer Repubs against US as sometimes happened in past. No definite commitment made.

3. Bramuglia explained in some detail recent developments in neighboring countries and emphatically disclaimed any participation on part Arg in any of overthrows and reported plots. Bramuglia statements were received with interest but no commitment given nor indication re importance or prejudgment of future developments (but Daniels in separate conversation Bramuglia clearly indicated Dept has received no evidence to confirm rumors).

4. Bramuglia emphasized desirability prior exchange of views re subjects for discussion inter-American conferences. Difficulty this procedure was outlined but desirability where possible was recognized without any commitment.

5. Mention was made of Briggs' reported attitude toward Arg Govt<sup>2</sup> but Lovett assured Bramuglia that Amb Bruce has now thoroughly informed Briggs to resolve misunderstanding.

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<sup>1</sup> Not printed.

<sup>2</sup> Bramuglia later informed Ray that he had been specifically instructed by Perón to bring up while in Washington the question of Briggs' alleged hostility to Argentina. (Despatch 365 from Buenos Aires, May 13, 1949, not printed) Commenting on the various statements relating to him, Briggs informed the Secretary of State as follows: "I wish to declare that at no time have I considered it any part of my duties as Ambassador to Uruguay to interest myself in, much less participate in, Argentine-US relations." (Telegram 30 from Montevideo, February 17, 1949, 1 p. m., 835.00/2-1749.)

6. Lovett outlined in detail certain press antipathy toward Arg and stressed importance of press to public opinion and its complete independence. He mentioned undesirable publicity resulting from Arg measures affecting press and radio and explained that some unfavorable publicity had also originated from releases by officials both Govts and hoped these would be avoided in future. No commitment made to muzzle press as indicated urtel.

Memos of Conversation which enlarge on above being mailed.<sup>3</sup>

LOVETT

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<sup>3</sup> *Supra*.

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## THE POSITION OF THE UNITED STATES WITH RESPECT TO THE ARGENTINE ARMS PROCUREMENT PROGRAM<sup>1</sup>

835.24/1-2848 : Airgram

*The Chargé in the United Kingdom (Gallman) to the Secretary of State*

SECRET

LONDON, January 28, 1948.

A-241. US-UK : Sale by UK of American tanks in Belgium ; export to Argentine.

Emb. A-2652 of Dec. 31, 1947<sup>2</sup> reported FonOff views in re sale in Belgium of tanks of US origin by UK disposal officers. As stated therein, it was apparent both FonOff and Min. of Supply officials were embarrassed by failure of UK officials concerned to take necessary precautions to ensure these tanks were actually in "scrap" condition. While FonOff insisted that UK Govt had made no unusual profit on transaction as only scrap prices were charged and received, the intimation was that there might have been "carelessness" on part of officials concerned.

It is now known that shortly after this case first arose, the Brit authorities, including Scotland Yard, the police are<sup>3</sup> began investigating the sale of UK military surplus on the continent and the possible illegal personal enrichment of the officials concerned therewith. Recently, this investigation culminated in the sending of a special police mission, composed of Scotland Yard agents and financial experts, to Switzerland to examine into bank accounts there of former disposal officers. The intimation was that those officials had deposited any funds illicitly received in hidden accounts there.

However, UK press Jan. 26th reports the return of the police mis-

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<sup>1</sup> For previous documentation on the question of providing arms to Argentina in 1947, see *Foreign Relations*, 1947, vol. VIII, pp. 215 ff.

<sup>2</sup> *Ibid.*, p. 236.

<sup>3</sup> Apparent garble.



sion from Switz without any results since the Swiss authorities refused to facilitate or even permit the investigations to be made. Nevertheless, the development indicates that the UK authorities have taken steps to prevent sale of surplus in an illegal manner.

GALLMAN

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835.24/2-1848 : Airgram

*The Secretary of State to the Embassy in the United Kingdom*

SECRET

WASHINGTON, March 2, 1948.

A-179. Reference your A-418 February 18.<sup>1</sup>

Our present information is that total shipments US military vehicles Antwerp to Argentina amounted to 583 tanks and 797 jeeps between March 5 and November 17, 1947 (Brussels tel. 2014 Dec. 19<sup>2</sup>). So far unable confirm arrival all tanks Argentina but have found no evidence support newspaper reports diversion USSR (Brussels tel. 2014 Dec. 19; Buenos Aires tels. 62 Jan. 16 and 101 Jan. 28<sup>3</sup>). Approximately 780 tanks remain Antwerp in good but weatherbeaten condition (Brussels tel. 71 Jan. 14<sup>1</sup>). These tanks and ones already shipped to Argentina were sold by Victor F. Van Loo to Claude Locreille (Brussels despatch No. 21 Jan. 13<sup>1</sup>). Department has assumed these are same tanks mentioned your A-2652 Dec. 31<sup>4</sup> purchased by Belgian Overseas Trading Corporation from British Ministry of Supply. Can you or Brussels confirm this?

Locreille has brought suit against Van Loo for breach of contract and tanks have been attached in Antwerp to prevent transfer to third party and to guarantee amount owed to Locreille in damages (Brussels despatch No. 21 Jan. 13). Locreille has made all purchases for Argentine Government on commission basis and latter now negotiating directly with Van Loo to eliminate Locreille commission (Buenos Aires tel. 132 Feb. 5<sup>1</sup>).

These circumstances are directly contrary to US policy disposal lend-lease military equipment, and US-UK Military Holdings Agreement March 27, 1946,<sup>5</sup> was intended to prevent such a situation. Agreement provides that lend-lease articles (which these "presumably" are according to your A-2652) may not be disposed of outside UK and dependencies without US approval, but that articles "rendered unfit

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<sup>1</sup> Not printed.

<sup>2</sup> *Foreign Relations*, 1947, vol. VIII, p. 236.

<sup>3</sup> Buenos Aires telegrams 62 and 101, not printed.

<sup>4</sup> *Foreign Relations*, 1947, vol. VIII, p. 236.

<sup>5</sup> Department of State, *Treaties and Other International Acts Series No. 1509*.

for military use may be disposed of for scrap" without prior US authority. These tanks sold for scrap but still in good condition, and demilitarization has been trifling according to Brussels' tel. 1496 Sept. 26<sup>9</sup> repeated London 105. Result is that large numbers US tanks suitable for military purposes have been and are still being disposed of without US approval.

Department feels British should do what they can to rectify this situation. If original sale to Overseas Trading Corporation was not in accordance with Military Holdings Agreement, then tanks may still be subject to recapture by US, but we do not propose this as solution. Specific result we want is assurance that no more lend-lease tanks will be exported from Belgium to any destination without US approval except that tanks "rendered unfit for military use may be disposed of for scrap" as provided by Holdings Agreement. We do not believe, however, that tanks can be made truly unfit for military use by any method short of scrapping, which Belgians are obviously not doing. If above results can be reached, Department will probably not care whether it is done by returning tanks to possession of British Ministry of Supply, or by securing appropriate commitment from Belgians, or by other means.

You are requested to present Department views to British and ask them to take action on lines indicated above. Please make it clear that, in taking this action, the Department is not prejudging the desirability of any further shipment to Argentina that may be proposed. Point is that in principle, and especially under present conditions, US war equipment should not be available for transfer from one country to another without US consent. Since tanks are subject of law suit, we cannot be sure what will become of them or where they will finally be sent. Under these circumstances, we expect British willing cooperate in correcting situation which they must agree should never have arisen.

Next question is whether British may have sold other US military equipment as scrap when in fact it was suitable for military use. Please explore this problem also, for we are anxious to know whether there are other cases in Belgium or elsewhere that should be similarly corrected.

Since tanks were first sold as scrap and then resold in operable condition, presumably at increased price, US may be entitled to some financial adjustment over and above ordinary accounting for sales of lend-lease equipment. You may say that Department will take up this question with British in connection with current talks with UK Treasury Delegation on final settlement of lend-lease claims and accounts.

MARSHALL

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<sup>9</sup> *Foreign Relations*, 1947, vol. VIII, p. 228.

S35.24/3-2548 : Telegram

*The Chargé in the United Kingdom (Gallman) to the Secretary of State*

SECRET

LONDON, March 25, 1948—4 p. m.

1230. Foreign Office states British Embassy Brussels discussed tanks (Embtel 971 repeated Brussels 42 March 10<sup>1</sup>) informally with Belgians and was informed no possibility exportation existed until court decision and that "most likely" favorable action would be taken on formal request for cancellation any outstanding export permits. Instructions to make formal request that no exportation be permitted without US-UK approval now being forwarded British Embassy Brussels.

Minister of Supply<sup>2</sup> insists informally impossible repossess tanks. Tanks statedly are of diverse origin including British-owned, Canadian-owned, of US manufacture and Lend-Lease and no way identify which is which. Both Foreign Office and Minister Supply appear anxious to meet our requirements and willing use political pressure on Belgians. British Treasury declares no possibility of increased payment since British only received scrap prices.

Full report airmailed.

Sent Dept 1230 repeated Brussels 47.

GALLMAN

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<sup>1</sup> Not printed.

<sup>2</sup> George R. Strauss.

S35.24/4-348 : Telegram

*The Chargé in Belgium (Millard) to the Secretary of State*

SECRET

BRUSSELS, April 3, 1948—5 p. m.

US URGENT

ReDeptel 392, March 16.<sup>1</sup> After receipt copy British Embassy note, presented note March 31 to Foreign Office stating we support British representations that no export license be accorded for 365 tanks Argentina.

Today Spaak and Vander Statten-Waillet<sup>2</sup> told me that they desire authorize export more than 600 tanks Argentina for which Belgium will obtain 10,000 tons butter and 10,000 tons vegetable fats saving 20,000,000 pesos or \$6,000,000. Spaak said that we had not officially pro-

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<sup>1</sup> Not printed.

<sup>2</sup> Belgian Minister of Foreign Affairs and Minister of Foreign Commerce, respectively.



tested previous shipments (see Deptel 1615 November 7<sup>3</sup>) and that 2,500 tons butter already en route Belgium.

I referred to my conversation with De Gruben<sup>4</sup> (see fifth paragraph Embassy despatch December 11<sup>5</sup>) and remarked that I had repeatedly asked that Embassy be informed future shipments. Added that De Gruben's statement that export license for 90 tanks had been refused in December (see enclosure one Embdesp 1704, December 23<sup>5</sup>) doubtless gave Department to understand no further shipments would be licensed. Pointed out we had only by chance heard of 365 (Embtel 474, March 8<sup>5</sup>). Said that although lacking specific information re Department's policy it was my opinion that shipment additional 600 odd tanks Argentina would render most complicated entire question relative standing South American armies and that it would no doubt cause grave difficulties our hemisphere defense program. Spaak replied that receipt butter and vegetable fats would assure derationing Belgium and refusal ship tanks would embarrass Belgian Government. I observed that saving \$6,000,000 was negligible if it involved South American dis-equilibrium.

He said he would discuss the matter with the Acting Secretary upon arrival Washington (see Deptel 481, April 1<sup>5</sup>).

Spaak inquired since agreement had been concluded with Argentina what excuses should he give for cancelling agreement. Could he say that he was doing so at the request United States Government? Could we help Belgium obtain fats which in such event Argentina might refuse ship Belgium?

Statement of Department's reasons for objecting shipment tanks Argentina would be helpful in Embassy's discussions with Foreign Office.

MILLARD

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<sup>3</sup> *Foreign Relations*, 1947, vol. VIII, p. 233.

<sup>4</sup> Baron Hervé de Gruben, Secretary-General of the Belgian Foreign Office.

<sup>5</sup> Not printed.

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835.24/4-948 : Telegram

*The Acting Secretary of State to the Embassy in Belgium*

SECRET

WASHINGTON, April 9, 1948—7 p. m.

530. Reurtel 663 Apr 3.<sup>1</sup> Depts position on continued export of tanks was stated in A-179 Mar 2 to London, copy of which was forwarded to you. Purpose has been to obtain right to approve destinations to which tanks would be shipped in order to make sure that they would not be

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<sup>1</sup> Not printed.

sent to undesirable destinations. Dept requested cessation of current shipments only as interim measure pending final solution. While effect of this action would obviously fall on Argentina, action itself was not directed against Argentina and was not intended to raise merits of further exports to Argentina as primary question. From security viewpoint Dept has not been concerned with shipments already made, but with large number of remaining tanks as to which disposition and ultimate destination were unknown to us. Feeling here is that it would be reasonable for US Gov to share in deciding destination of these tanks, both on security grounds and in view of fact that original sale by Brit Ministry of Supply was in violation of US-UK Military Holdings Agreement, and also that subsequent sales of tanks in operable condition have been in violation of contract between Brit Ministry of Supply and Bel Overseas Trading Corp.

Foregoing intended to express what Depts overall objective in this matter has been. Following concerned with specific proposal export over 600 tanks to Argentina. Dept has consulted Army on this question, and Army is considering whether proposed shipment is desirable in view of possible military requirements of Western Union. Intend inform Spaak this aspect of question under consideration. Will notify you when final conclusion reached.

Sent Brussels, rptd London as 1258 and Buenos Aires as 313.

LOVETT

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835.24/4-2148 : Airgram

*The Ambassador in the United Kingdom (Douglas) to the Secretary of State*

SECRET

LONDON, April 21, 1948.

A-938. US-UK; sale lend-lease tanks by Belgium to Argentine.

FonOff official charged with matters relating to question of lend-lease tanks in Belgium states (Deptel 1258 Apr. 9, 1948<sup>1</sup>) :

1. FonSec Bevin has taken a personal interest in matter and sent a memorandum to departments concerned that Brit. official conduct in this matter has been deplorable, that US Govt. has justifiable reasons for the attitude which it has taken, and that he expected FonOff officials to do everything possible to meet US requirements.

2. FonOff prepared data for Bevin to talk over the matter personally with acting Belgian Foreign Minister and to urge on political grounds that Belgian Govt. meet US requirements in regard to exportation of any of these tanks from Belgium.

DOUGLAS

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<sup>1</sup> Same as telegram 530 to Brussels, *supra*.

835.24/4-1048 : Telegram

*The Acting Secretary of State to the Embassy in Belgium*

SECRET

WASHINGTON, April 23, 1948—8 p. m.

606. Reur 810 Apr 22<sup>1</sup> and Deptel 530 Apr 9 Army has now informed us that it sees no compelling military reason why the approximately 600 tanks in question should not be exported to Argentina but wants it made clear to Belgs that tanks might be of use to Western Union and that accordingly Belg Govt should fully consider this possibility before approving these and any further exports. Dept agrees with this position.

You may therefore inform Belgs that US Govt does not propose to object to contemplated shipments to Argentina as such but will assume that this and all future shipments will be made only after full consideration of possible requirements of Western Union so that decision to export certain quantity of tanks will be in effect decision by Belg Govt that those tanks are not and will not be needed by Western Union. If Dept should find that WestEur countries outside Union have requirements for tanks like these, it would expect inform Belg Govt of such requirement and would then expect Belgs to give these requirements full consideration before authorizing further exports tanks to any destination. Please determine whether Belgs agree to this. In this connection Dept has noted statement urtel 730 Apr 10<sup>1</sup> that Belg Army would accept World War II material in good condition if new or secret material not available.

Foregoing decision to withdraw objection is contingent upon Belg agreement to refer for US approval all proposed shipments tanks and to keep us informed of all shipments actually made. This is objective which Brit were asked to accomplish on our behalf so you should arrange with them how matter can best be settled with Belgs.

Recent example Depts concern with export destinations is case of sale of 55,000 tons US surplus ammunition to Belgs by OFLC Paris. Belgs were obligated to demilitarize this ammunition but have recently requested authority to use a portion of it in original form. FLC Paris has been instructed to agree, provided clause is inserted in contract prohibiting re-export without US approval. You may wish to mention this matter to FonOff for its info. Sent Brussels, repeated to London and Buenos Aires.<sup>2</sup>

LOVETT

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<sup>1</sup> Not printed.

<sup>2</sup> A note on the London Embassy copy of this telegram reads: "Substance communicated to J. Russell Western Dept F.O. F[rances] E. W[illis]."



835.24/4-2748 : Telegram

*The Secretary of State to the Embassy in Belgium*

SECRET

WASHINGTON, May 4, 1948—6 p. m.

656. Reurtels 850 and 851 Apr 27.<sup>1</sup>

1. Deptel 606 Apr 23 which you say was garbled in transmission was rptd to you Apr 28.

2. Proposed note your 851 is correct statement of corresponding portions Deptel 606. However we prefer that note not be presented to Belgians, since we believe negotiations this subject should be handled primarily by Brit. Dept has felt consistently that Brit should take initiative in accomplishing solution and for that reason requested in Deptel 606 that you arrange with Brit how matter could best be settled with Belgians. In this connection we assume you may count on full Brit cooperation in view of London's A-938 Apr 21 (copy of which was sent you) concerning Bevin's personal interest in matter.

3. Re your point that Brit should insure that tanks are not required by other Western Union powers, see Deptel 606 Apr 23 suggesting that permanent Five Power Military Committee should make this determination.

4. Considerations mentioned your 850 re balance armaments South America were taken in account by Dept and Army in reaching position stated Deptel 606.

5. Re suggestion conclusion your 850 we feel that question of tanks should not become involved in any way with ERP.

MARSHALL

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<sup>1</sup> Neither printed.

835.20/5-1348 : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*

CONFIDENTIAL

SANTIAGO, May 13, 1948—1 p. m.

US URGENT

308. Vergara <sup>1</sup> says Chile and especially Chilean Army much interested in the rather remarkably large military mission from Argentina headed by Minister of War <sup>2</sup> going to Washington. It is thought here that purpose is to acquire great amount military equipment and probably to get assistance in the building and expansion of arms factories in Argentine. Should this develop the economic effect on Chile will be serious since the armed forces here would demand heavy

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<sup>1</sup> Germán Vergara Donoso, Chilean Minister of Foreign Affairs.

<sup>2</sup> Gen. José Humberto Sosa Molina.

appropriations to meet resulting danger from Argentina. Vergara thinks most South American countries would be concerned over our assistance in building up a powerful military machine by Perón.<sup>3</sup>

Vergara asks if we can give him any reassurance as to purpose of Argentine mission and as to our disposition. (Comment.) I know that when General Crittenberger<sup>4</sup> spent about ten days in Buenos Aires in close contact with Argentine Army and passing through Chile stayed a little more than a day there was much speculation here as to significance and this followed by the Argentine mission to Washington has not unnaturally created serious concern. Anything we may be able to report to Vergara would be appreciated by Embassy.

BOWERS

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<sup>3</sup> The Argentine President Juan Domingo Perón.

<sup>4</sup> Lt. Gen. Willis D. Crittenberger, Commanding General, Caribbean Defense Command.

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835.20/5-1348 : Telegram

*The Secretary of State to the Embassy in Chile*

CONFIDENTIAL

WASHINGTON, May 14, 1948—7 p. m.

167. Arg Min War was invited US as guest of Army on courtesy sight-seeing visit similar that previously extended numerous other LA military persons. (Urtel 308 May 13.) This Govt has no policy which would prevent Arg from obtaining equipment here on same basis as other Am Reps, nor does it contemplate any special relationship with Arg in this regard.

You may inform Vergara in sense of this tel.

MARSHALL

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835.24/5-2948 : Telegram

*The Ambassador in Belgium (Kirk) to the Secretary of State*

SECRET US URGENT

BRUSSELS, May 29, 1948—1 p. m.

1102. ReDeptel 656, May 4. Sense of Department's instructions conveyed to the British who have addressed note to Foreign Office stating that, as many Van Loo tanks appear of potential military value if only for training purposes, they be declared military resources of Belgium available for western Europe defense and permanent Five-Power Military Committee be so informed.

This morning Van der Straten-Waillet, Minister Foreign Commerce convened Moens de Fernig, Minister Importation, de Gruben, and

representatives American, British Embassy to discuss matter.<sup>1</sup> De Fernig outlined in detail Belgian position stressing that Belgium has received approximately 40 percent vegetable fats and 66 percent butter from Argentina (under contract described second paragraph Embtel 663, April 5<sup>2</sup>) for which it had agreed send 500 (not 600 as they previously stated) tanks, none of which yet shipped. While conceding desirability making tanks having military value available to Military Commission Belgians stressed financial loss they would suffer if they did not fulfill contract. Stated Argentine ship now Antwerp to load 87 demilitarized tanks and requested our approval this shipment. Britishers indicated willingness accept this proposal provided these tanks were completely demilitarized. Accordingly agreed that Monday or Tuesday Belgian, British and American military representatives would be present at loading tanks assuring that 87 tanks are those of nonmilitary value.

Re submission matter to Five-Power Military Commission de Gruben stressed that once this action initiated Belgian hands completely tied in implementing Argentine contract and that some tanks might be unfit for military use even training. Accordingly agreed that British and Belgian tank experts would make detailed inventory of tanks remaining Antwerp for presentation to Five-Power Military Commission of usable tanks as part Belgian military resources. View US interest British inviting US tank experts also participate. Am contacting EUCOM and requesting US ordnance and tank experts proceed Antwerp near future.<sup>3</sup>

Sent Department 1102; repeated London 106.

KIRK

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<sup>1</sup> Hugh Millard and G. McMurtrie Godley, second secretary of the U.S. Embassy, represented the United States. W. H. Montagu-Pollock, Counselor of the British Embassy, represented the United Kingdom.

<sup>2</sup> Not printed.

<sup>3</sup> In telegram 1111, June 2 (835.24/6-148, not printed) Embassy Brussels reported that the inventory of the tanks revealed that they mounted cannons and were apparently in good condition. This was reported to the Belgian Foreign Office, which then refused to authorize their exportation.

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835.24/5-2948 : Telegram

*The Acting Secretary of State to the Embassy in Belgium*

SECRET

WASHINGTON, May 31, 1948—1 p. m.

US URGENT

823. We wonder whether Brit, French and Dutch (Embtel 1102 May 29) as well as Belg Govts realize significance from point of view of US public and Congressional opinion of Belg Govt's action in ship-



ping tanks to Argentina for financial reasons. Obviously US Govt is not going to impose additional financial burdens on Amer taxpayer to furnish Mil equipment to any of signatories of Brussels Treaty while one of them exports Mil equipment demilitarized or otherwise to non-European countries. Idea of demilitarizing tanks completely misses point.

Senate Appropriations Committee has severely warned Army future requests for appropriations for equipment for our own forces will be closely scrutinized to ascertain whether or not such equipment has previously been declared surplus and made available to other Govts. Present Belg-Argentine contract if carried out could have repercussions out of all proportion to Mil or financial value of tanks on any future requests from any of five Govts for US Mil equipment. French in particular should have lively interest this aspect.

Repeat your 1102 to Paris and Hague and advise Belgs immediately substance this message.

Sent Brussels as 823 Rptd London 2009 Paris 1883 and Hague 218.

LOVETT

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835.24/6-248 : Telegram

*The Ambassador in Belgium (Kirk) to the Secretary of State*

SECRET

BRUSSELS, June 2, 1948—6 p. m.

1122. ReEmbtel 1111, June 1.<sup>1</sup> Saw Spaak this morning, who appreciates necessity withholding tank shipments and understands our position. Was impressed by senatorial action mentioned second paragraph Deptel 823, May 31. Has instructed Ministry National Defense prepare Belgian Commission examine, in conjunction British or other officers, remaining tanks evaluating their military usefulness.

Re possibility that story might break in press, which needless say would be most unfortunate, Spaak referred to fact that no tanks have been shipped from Belgium since October 22, 1947. Therefore I suggest Department be prepared if story breaks in American press issue some statement effect that for some 5 months prior signature Five Power Brussels pact no tanks shipped from Belgium.

KIRK

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<sup>1</sup> Not printed, but see footnote 3 to telegram 1102, p. 319.

S35.20/6-548

*The Chief of the Latin American Branch, General Staff, United States Army (Freeman), to the Director of Plans and Operations, General Staff, United States Army (Wedemeyer)*<sup>1</sup>

SECRET

[WASHINGTON,] 4 June 1948.

1. At a conference with the Secretary of the Army on 21 May 1948, the Argentine Minister of War presented a memorandum which stated in substance :

*a.* The Argentines appreciated the offer of the surplus property which was indicated to be available in the interim replies of March and May 1948 and which had been requested in List 1 of the Crittenberger Memorandum of 8 December 1947.<sup>2</sup>

*b.* The Argentines had reduced their request for complete organizational units of equipment and now desired to procure complete units of organizational equipment for only :

- 1 self-propelled 40mm antiaircraft battery ;
- 1 company of medium tanks ;
- 1 company of light tanks ;
- 1 reconnaissance troop of the armored division ;
- 1 headquarters and service troop of the armored division ;
- 1 battery of self-propelled 105mm howitzers.

All of the foregoing equipment was to be in accordance with the latest United States tables of organization and equipment.

*c.* Assistance was also requested from the United States Army in the procurement from commercial sources of additional military equipment.

2. To provide the Argentine Government with the six organizational units set forth above, the President was requested to authorize the sale of this matériel under Public Resolution No. 83 of 1940. At noon on 3 June 1948, the President authorized the Secretary of the Army to make the sale. . . .

P. L. FREEMAN, JR.  
Colonel, GSC

<sup>1</sup> This document, along with the letter by Royall (*infra*), was forwarded by Freeman to John C. Dreier, Chief of the Division of Special Inter-American Affairs in a memorandum dated June 5, not printed.

<sup>2</sup> None printed.

835.20/6-548

*The Secretary of the Army (Royall) to the Argentine Minister of War (Sosa Molina)*<sup>1</sup>

SECRET

[WASHINGTON,] 4 June 1948.

YOUR EXCELLENCY: With respect to the Crittenberger Memorandum of 8 December 1948 [1947?], I can now inform you that the United States Army will make available to the Foreign Liquidation Commission to be sold to the Argentine Government as surplus property the equipment tabulated in the attached list (Tab A<sup>2</sup>). This list includes the items of List 1 which were declared available in the two interim replies to your Government of March and May, this year. There is also included the ordnance items found to be available to the extent of approximately 20% of the total amount of the requirements set forth in your List 1. The principal weapons which are offered are:

5	75mm howitzers on motor carriages
16	40mm antiaircraft guns
3	57mm antitank guns
270	50 caliber machine guns
143	30 caliber machine guns
953	submachine guns

The list contains numerous other items of ordnance equipment, such as fire control materiel, ammunition, spare parts, tool kits, etc.

We are compiling, and will give to your Attaché or other liaison representative at an early date, the remainder of List 1 which is not available from United States Army stocks and which you may desire to buy in the American market. The United States Army will be glad to confer with your liaison representative to furnish further facts about the non-available items and to give technical assistance in determining the most suitable way of effecting purchase of those items which you decide to buy.

. . . . .

With respect to your oral request at our meeting on 21 May, I am able to confirm that seven additional vacancies for Argentine officers at the Armored Force School have been made available and the invitation has been extended to your Government through both your Military Attaché here in Washington and our Military Attaché at Buenos Aires.

With warmest regards, I am,

Sincerely yours,

KENNETH C. ROYALL

<sup>1</sup> See footnote 1, p. 321.

<sup>2</sup> Not printed.



835.24/6-1048 : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*

SECRET

SANTIAGO, June 10, 1948—5 p. m.

372. Attention Marshall, Lovett and Armour.<sup>1</sup> Report in press of recent sale to Argentina of a quantity of arms most disturbing. In addition have been advised that Department of Army recently sold fifty 90 mm guns which seems here to be preferential treatment for Argentina. Effect here exceedingly bad and may hasten purchase from England of *Ajax* and other ships for the navy as well as all types military equipment in open market by Chilean armed forces (Embtel 366, June 9<sup>2</sup>). Unless Congress passes before adjournment inter-American military cooperation act Chile probably will be forced in self defense buy elsewhere than from US. Our prestige in military circles was very high until recently but it has undergone slump which is most disturbing to Embassy.

It is impossible persuade Chileans to share in confidence of some quarters at home in the peaceful intentions or the democracy of Perón. The fear of Argentine intentions here is most real and in my opinion entirely justified. Suggest you read military attaché's report 89-48<sup>2</sup> to Department of Army.

BOWERS

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<sup>1</sup> Norman Armour, Assistant Secretary of State for Political Affairs.

<sup>2</sup> Not printed.

835.20 Missions/7-248

*The Chargé in Brazil (Key) to the Department of State*

No. 787

RIO DE JANEIRO, July 2, 1948.

The Chargé d'Affaires a.i. has the honor to report that the Rio de Janeiro press has recently carried accounts stating that eight Royal Air Force specialists in jet-propelled aircraft were in Rio de Janeiro, enroute to Argentina. These men are reportedly contracted by the Argentine Government to instruct Argentine aviators in the handling and maintenance of jet-propelled airplanes recently acquired in Great Britain by Argentina. The newspaper accounts state that close to one hundred jet planes were purchased, and that delivery in Argentina has been made of most or all of this number.

The *Diário da Noite*, of June 29, 1948, carried a front page account of the matter under the headline, "War-Like Preparation of Argentina". The story stated that the eight RAF specialists were in Rio de Janeiro aboard the SS *Andes*. They refused to be interviewed by the

press regarding their mission. The leader of the group, John Gray, is reported to have stated that the group expected to stay in Argentina at least two years, instructing Argentine aviators in jet-propelled aircraft recently acquired from Great Britain. The *Diário da Noite* account began by asserting:

"It is no longer a secret to the world, the interest which General Perón is manifesting in strengthening the armed forces of Argentina, duplicating under the peaceful skies of Latin America an authentic armament race on the pattern of those undertaken among the warlike peoples of Europe. This preoccupation of the Argentine President is being supported and given prestige by almost all of the high military authorities of the country. . . ."

The *Diário da Noite* asserts that Commodore John C. Roberts, British Air Attaché in Rio de Janeiro, when interviewed, stated that "all the jet-propelled craft acquired in Great Britain are now in Argentina, and the number of aircraft is in the neighborhood of a hundred".

The same newspaper declares that the First Secretary of the Argentine Embassy in Rio de Janeiro, Rodolfo Boldt, when contacted, stated that he knew nothing of any RAF mission enroute to Buenos Aires, and added: "It is common for Argentine pilots to go to England to receive instruction, and after finishing their course, to return to their country . . .<sup>1</sup> possibly the pilots which are here are actually Argentines returning to Buenos Aires".

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<sup>1</sup> Omission in the source text.

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840.00/7-348: Telegram

*The Secretary of State to the Embassy in Belgium*

SECRET

WASHINGTON, July 3, 1948—noon.

1036. Frequent reports of continued activities of Van Loo (US Mil Attaché Airgram Nr. AGC-97, 25 June 1948<sup>1</sup>) and like-minded individuals becoming source of increasing irritation. While we understand Belg business instincts we do not understand seeming indifference of Belg Govt to activities having effect of syphoning off mil potential of Brussels Pact powers. We should think that Spaak would have even stronger feeling in this respect since ultimate action on part of US in implementing Vandenberg Resolution<sup>2</sup> depends upon preliminary action by Brussels signatories.

We would consider that placing by Belg Representatives of arms

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<sup>1</sup> Not found in Department files.

<sup>2</sup> For the text of Senator Vandenberg's Resolution of June 11, 1948, see the first compilation in volume III.

exports question before Five Power Mil Commission would be definite step forward.<sup>3</sup>

Sent Brussels as 1036 rptd Lond as 2549 Paris as 2463 and Hague as 302.

MARSHALL

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<sup>3</sup> In telegram 1387, July 7, Embassy Brussels reported that the Belgian Government had referred the question to the Five Power Military Commission (501.BB Palestine/7-748).

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635.0031/7-1448 : Airgram

*The Ambassador in Argentina (Bruce) to the Secretary of State*

BUENOS AIRES, July 14, 1948.

A-379. Referring to the Department's telegram no. 631, dated July 13, 1948,<sup>1</sup> this Embassy is interested in having the Department's advice as to how exports from the Argentine to satellite countries would jeopardize essential supplies requirements OEEC countries, as ECA has communicated to Argentine Government here through Hensel that no supplies are necessary in this regard for the next six months.

Regarding military and semi-military goods reaching Europe. Argentina is very short of these items and would have none available for shipment. The factual situation is just the opposite and that is that Czechoslovakia has been making continuous offers of military equipment to the Argentine through Skoda Works. The Department will perhaps remember that Embassy here negotiated cancellation of one such contract in the amount of approximately \$18,000,000 covering the purchase of 50 batteries of 88 mm. anti-aircraft guns, substituting for same the purchase of an equivalent number of 90 mm. guns from the United States Army.

The other suggestions in the Department's telegram are sensible and entirely in accordance with our own views but as the matter is such an important one as part of over-all policy we did not like to express same without confirmation by the Department.

BRUCE

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<sup>1</sup> Not printed.

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635.0031/7-1448 : Airgram

*The Secretary of State to the Embassy in Argentina*

WASHINGTON, August 5, 1948.

A-380. Reference Embassy's airgram No. A-379, July 14, 1948 and Department's telegram No. 631, July 13.<sup>1</sup> Following should clarify.

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<sup>1</sup> Latter not printed.



The statements in Deptel 631 regarding shipment of military as well as non-military goods by Argentina to Iron Curtain countries were intended to set forth this Government's general policy toward such shipments and not to imply that Argentina, by shipping ordinary commercial products at this time, would jeopardize supply essential requirements to OEEC countries or that there was any real likelihood of Argentina shipping military or semi-military goods to Eastern Europe.

The United States would prefer Argentina not sell to Iron Curtain countries goods which OEEC countries need and for which latter are able to make satisfactory purchase arrangements with Argentina, whether with or without ECA financial assistance. The Department agrees that the Embassy cannot ask Argentina to forego the opportunity of profitable sale or exchange to Iron Curtain countries where no possibility exists for satisfactory transaction with OEEC countries.

This Government is not in a position to object to any Argentine imports, including military equipment, from Iron Curtain countries or elsewhere. However, we would prefer that Argentina obtain all its military equipment in the United States and that this equipment be what our armed services regard as "standard". While we cannot prevent or object to such purchases from other sources, it is our policy to call to Argentina's attention the equipment available in this country, or likely to be available, in an attempt to forestall purchases in Europe. If equipment desired by the Argentines is not available here at attractive prices, it is to be expected that they would wish to make some purchases in Europe. We have not used any strong pressure to prevent this and it is not contemplated that we shall do so in the near future.

MARSHALL

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835.24/8-1048 : Airgram

*The Secretary of State to the Diplomatic Representatives in the American Republics*

WASHINGTON, August 10, 1948—3 : 15 p. m.

The following information is provided in view of several comments and inquiries from American diplomatic missions and representatives of other governments regarding the scope and nature of recent sales of military equipment to Argentina by the United States, as reported in the press.

Until June, 1947, Argentina was permitted to purchase no military equipment in the United States. At that time, however, practically all other Latin American governments were sold moderate amounts of surplus United States arms which were allocated to the respective countries in accordance with their relative military strength as indicated in the bilateral staff conversations of 1945. No bilateral staff conversations were held with Argentina; consequently, during the past year informal conversations were had with Argentine Army authorities regarding their defense needs. Subsequently, this Government sold to Argentina a moderate amount of military equipment, the total quantity of which was less than what Argentina would have received if she had been included in the "interim program" on the same basis as other Latin American countries. Actually, therefore, Argentina, despite her acquisitions from this Government during recent months stands in a relatively less favorable position in regard to arms procurement from this Government than do most of the other American republics.

Argentina has also acquired some amounts of military equipment (particularly aircraft and miscellaneous unarmed naval craft) directly from commercial sources in the United States. Licenses were issued for the export of these items under the same policy as applies to all other Latin American governments. (Argentina has also purchased some jet aircraft and other types of planes from Great Britain, with which this Government has had nothing to do.)

Finally, Argentina has attempted to obtain industrial equipment in the United States for development of her munitions industry. Such efforts have, of course, been entirely on a commercial basis and do not involve official participation of this Government.

No "secret" information, weapons, plans, patents, or other material have been made available to Argentina by this Government in connection with the former's armament program.

In all aspects of military cooperation, this Government is treating Argentina on a no more favorable basis than any other Latin American government.

The substance of the above may, in your discretion, be communicated orally and informally to representatives of the government to which you are accredited in the event they express apprehensions over any alleged favoritism on the part of this Government towards Argentina in the matter of armaments.

MARSHALL

S55.24/9-2948

*The Chief of the Foreign Military Aid Branch, Logistics Division, General Staff, United States Army (Davis) to the Acting Chief of the Lend-Lease and Surplus Property Branch, Division of Economic Property Policy (Shenefield)*

SECRET

WASHINGTON, September 29, 1948.

DEAR MR. SHENEFIELD: The recent inspection of U.S. tanks in the possession of Mr. Van Loo in Belgium by the Five Power Commission indicates that these tanks (448 Sherman and 20 Stewart tanks) can be used by the Western Union Powers as tanks or as a source of supply of spare parts. These tanks can also be used to meet U.S. Army requirements.

It is felt that these tanks should first be applied against the Western Union requirements and secondly, if possible, any tanks not required by the Western Union should be recaptured and returned to U.S. Army stocks in Europe.

It is requested that action be initiated to stop further disposition of tanks in question and to have the United Kingdom regain possession of these tanks for eventual retransfer to the Western Union Powers or recapture by the United States. Upon receipt of information that the United Kingdom has regained possession and upon determination of the tank requirements of the Western Union, the Department of the Army will furnish the necessary disposition instructions.<sup>1</sup>

Sincerely yours,

CHARLES I. DAVIS  
*Lt. Colonel, GSC*

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<sup>1</sup> On January 5, 1949, Mr. Shenefield replied that he had been "informed by the British Treasury Delegation that recapture of the tanks cannot be exercised by the British Government", and that he understood "that these tanks have been applied to the purpose intended by your letter."



## BOLIVIA

### INTEREST OF THE UNITED STATES IN THE ECONOMIC DEVELOPMENT OF BOLIVIA<sup>1</sup>

824.154/5-1748

*Memorandum of Conversation, by the Chief of the Division of North  
and West Coast Affairs (Espy)*

[WASHINGTON,] May 17, 1948.

Participants: Bolivian Ambassador, Sr. Don Ricardo Martinez  
Vargas  
Assistant Secretary of State, Norman Armour  
NWC, James Espy

During his call on Mr. Armour this morning Ambassador Martinez Vargas brought up the question of the delay in the reinitiation of work on the Cochabamba-Santa Cruz Highway, suspended since December, 1947.<sup>2</sup> The Ambassador said that five months had now passed and that although negotiations have been held with the Export-Import Bank since the beginning of the year for reorganization of the highway project, no final arrangements had yet been made to get the construction of the road again underway. In the meantime the Bolivian Development Corporation with the limited funds at its disposal was trying to keep a minimum of work going on. However, its funds would soon be exhausted and unless arrangements were made for repair of the equipment, final engineering plans and a new contract, financed by further credits from the Export-Import Bank, the whole project would come to a dead stop. In that event, it would be very costly to the Corporation because of the large discharge payments which the Corporation would have to make to the highway laborers. Besides this consideration there was, the Ambassador stated, much dissatisfaction in his country over the length of time it was taking to build the highway. In this latter connection he referred to the Brazilian and Argentine efforts to push through railroads from the

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<sup>1</sup> For previous documentation on technical aid by the United States for the economic development of Bolivia, see *Foreign Relations*, 1947, vol. VIII, pp. 342 ff.

<sup>2</sup> For documentation on the cancellation of the highway construction contract between the Bolivian Development Corporation (an agency of the Bolivian Government) and the McGraw-Warren Company, see despatch 1959 of December 19, 1947 and other documentation on this subject, *ibid.*, pp. 359-363.

respective borders of their countries to the city of Santa Cruz and he stressed that it was of paramount importance both politically and economically to Bolivia and from an international point of view to South America that the highway, forming the communication link between Santa Cruz and the rest of Bolivia, be completed before the railroads are finished from Brazil and Argentina.

Mr. Espy informed the Ambassador that the Bolivian exasperation over the slowness in the completion of the highway was understandable, but that he, the Ambassador, would realize the number of necessary steps which had to be taken to reorganize the work and put it this time on a sound basis. Such steps took time. However, the Export-Import Bank was actively engaged in assisting the Corporation to this end and was at the moment endeavoring to engage the services of a competent engineer to study and review the plans and specifications of the highway, consider the best way of repairing the equipment and make an estimate of the final cost to complete the highway preparatory to concluding a new construction contract.

At the close of the conversation Ambassador Martinez Vargas informed Mr. Armour that he would prepare a memorandum<sup>3</sup> on the subject and present it to the Department.

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<sup>3</sup> Not printed.

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824.50/6-1848

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] June 18, 1948.

Subject: U.S.-Bolivian Economic Cooperation

Participants: The Secretary  
Special Ambassador Javier Paz Campero  
Ambassador Ricardo Martinez Vargas  
Mr. James Espy—NWC

Señor Javier Paz Campero, Ambassador of Bolivia on a special mission to the U.S. called on me at noon today. He was accompanied by Ambassador Martinez Vargas.

Ambassador Martinez Vargas explained that Paz Campero had been designated by President Hertzog as a member of the Bolivian financial mission to negotiate a settlement of the Bolivian Foreign debt with the Foreign Bondholders Protective Council and that he was also commissioned by the President of Bolivia to take up other matters with this Government.

Ambassador Paz Campero said he first wished to express the greetings and best wishes of President Hertzog to President Truman and

to me. I thanked him and asked him to convey my cordial greetings to President Hertzog.

Our conversation then turned to a discussion of the Bogotá conference<sup>1</sup> where we had met this spring, he having been the head of the Bolivian delegation. I said I thought there were two lessons which we should learn from the sad events that occurred there. One was the necessity for the conservative and responsible people of this Hemisphere not just to sit back and allow bad conditions to develop which played into the hands of the radical subversive communist elements but to take the initiative and themselves meet the problems facing their countries. Otherwise they will find that they will be pushed into a corner and that other elements will force demands upon their governments far in excess of what is necessary.

The second point was the need for the Governments and the wealthier classes to undertake to educate, in democratic ways, the youth of the underprivileged and poor classes of the community. They should see to it that the promising young men are given an education, primary and secondary in their own countries and possibly in advanced studies abroad. I said if this is not done the communists will certainly seize the chance to train and indoctrinate those future leaders in the ideologies and ways of communism. I mentioned in this respect the part which the students had played in the Bogotá rioting.

Ambassadors Paz Campero and Martinez Vargas said that they agreed with me entirely.

Paz Campero then brought up the question of Latin-American economic development and the need for economic assistance from this country. I said that we had this very much in mind.

I then took the opportunity to mention the great difficulty we were having in meeting all the demands that are being made upon us. As an example, I said I had come back from a hearing on the allocation of steel where the problem of domestic and foreign requirements for that basic product was considered. Steel was needed for oil pipe lines in foreign countries which, in turn, would help to supply this country's requirements for oil; but steel was in such short supply that if all the foreign requirements were met our national industries would not have enough to meet their needs. In fact this shortage was so acute that one American company reported that it would have to lay off eleven hundred workers if a supply of steel was not immediately allocated for its factory. This showed what a difficult situation we were in and the Department of State was the one that was in the middle and being pressed from all directions. I said we would continue to give our earnest consideration to the needs of all parts of the world one of which was, of course, Latin-America.

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<sup>1</sup> For documentation on this subject, see pp. 1 ff.



Paz Campero then said he wished to bring to my attention, in particular, a matter which he considered of great importance to himself and his country. He explained he was a Senator in the Bolivian National Congress and all his life he had been espousing democracy in Bolivia and close cooperation between Bolivia and the U.S. He added that there had now arisen a situation which could have serious consequences both to the success of democracy in Bolivia and to relations with the U.S. He then went on to say that some years ago this Government had sent the Bohan Mission to Bolivia which had drawn up a plan for Bolivia's economic development.<sup>2</sup> In his opinion the plan was excellent and it had in fact come to be considered as a basic program for Bolivia and one in which the Bolivian people placed great hope. However, due to delays and other difficulties, the projects recommended by the Bohan Mission have not been executed. In particular progress on the Cochabamba-Santa Cruz highway, which is the most important of all projects, has been most disappointing. This situation has reached the state where the Bolivian Development Corporation, which was created to carry out these projects, is facing complete failure and the whole program recommended by the Bohan Mission is being seriously jeopardized. Ambassador Paz Campero hoped the Department could give its support to efforts being made to straighten out this situation and to strengthen the position of the Corporation. A specific action he requested to this end was renewed participation by the U.S. Government, through the Export-Import Bank, in the direction of the Corporation. In making this request, the Ambassador explained that such participation would restore direct cooperation between the U.S. and Bolivia in carrying out the operations of the Corporation recommended in the report of the Bohan Mission. He was confident that thereby the Corporation would be able to function much more expeditiously and effectively than it has in the past.

As further ways in which the U.S. could assist Bolivia, and which would represent a desirable complement to the original recommendations of the Bohan Mission, Ambassador Paz Campero requested that this Government give favorable consideration to the following proposals:

*First:* Credits be granted by the Export-Import Bank for financing hydro-electric development in the Lake Titicaca area and

*Second:* Assistance be provided in financing the migration to Bolivia of colonists from Europe.

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<sup>2</sup> For text of agreement of January 27, 1942 and documentation on the United States Economic Mission to Bolivia (popularly known as the Bohan Mission, for the Chief of the Mission, Merwin L. Bohan), see *Foreign Relations*, 1942, vol. v, pp. 592 ff.

I told Ambassador Paz Campero I would study his requests and speak about them to Mr. Martin, President of the Export-Import Bank of Washington.

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824.51/6-1448

*Memorandum by the Chief of the Division of North and West Coast Affairs (Espy)*

[WASHINGTON,] June 30, 1948.

Subject: Proposal of the Bolivian Government for Renewal of Service on its Defaulted Dollar Bonds

Mr. James Grafton Rogers, President of the Foreign Bondholders Protective Council, Inc. has informed the Department that on Friday morning, June 25, 1948 the Foreign Bondholders Protective Council, Inc. gave its approval to an offer of the Bolivian Government for the settlement, on an adjusted basis, of Bolivian defaulted dollar bonds. These bonds have been in default since 1931.

The settlement provides that service will be resumed on the bonds totaling some \$59 million dollars as of January 1, 1949. An additional amount of \$100 will be added to each \$1,000 bond to cover all interest in arrears (this would represent approximately 8% of the 18 years of unpaid interest). The bonds will bear an interest rate of 1% for the first two years, 1½% for the second two years and beginning with the 7th year and thereafter 3%, with 1% payment for amortization. The Bolivian Government beginning with 1949 will pay annually to a fiscal agent in the United States the sum of at least \$1 million 5 hundred thousand dollars for service of the interest and principal of the bonds. This amount will, of course, be larger during the first six years than the amount necessary to cover the interest during those years and the additional funds will be used to buy up bonds on the market in New York. Mr. Rogers anticipates that possibly a half of the bonds outstanding will be bought up in this fashion.

The proposed plan must be ratified by the Bolivian Congress. It is understood it will be submitted to the Congress during its session beginning August 6 this year.<sup>1</sup>

Two points still remain to be settled are: (1) The length of maturity of the bonds and (2) Whether new bonds should be issued or the old bonds stamped to show the new rates of interest. With respect to the first point the Bolivians desire a long period of maturity of possibly 46 years or more, while Mr. Rogers thinks that 30 years and at most

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<sup>1</sup>The Bolivian Congress adjourned December 20 without having passed the bond payments adjustment bill.

36 years should be provided. It was decided, however, that these two questions could be resolved later on, after Congressional ratification.

On Thursday, July 1, the Bolivian Government will issue an announcement of the offer to the New York press through the Bolivian Consul in New York.

In La Paz's telegram No. 265, June 14,<sup>2</sup> Ambassador Flack expressed the hope that the Department "appropriately record the importance of Bolivia's desire to clear its credit record after eighteen years of default." All things being considered this agreement reached between the Bolivian Government and the Foreign Bondholders Protective Council, Inc. is a favorable development and one which it is believed does merit official acknowledgment by this Government. It is therefore recommended that the Secretary at his press conference on Thursday, July 1, make a short statement expressing the gratification of this Government. Attached is a suggested draft of that statement.<sup>3</sup>

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<sup>2</sup> Not printed.

<sup>3</sup> For statement by Secretary Marshall to the press on July 1, see the Department of State *Bulletin*, July 11, 1948, p. 52.

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824.50/7-1548

*Memorandum of Conversation, by the Ambassador in  
Bolivia (Flack) <sup>1</sup>*

LA PAZ, July 12, 1948.

Mr. René Ballivián, who recently returned from the United States where he had been technical adviser to the Bolivian Economic and Financial Mission composed of Minister of Hacienda, José Romero Loza, and special Ambassador, Dr. Javier Paz Campero, called today to give me a resumé of his impressions.

Mr. Ballivián expressed his gratification for the courtesy and cooperation extended by the Department of State, the ExImBank, and the President of the Foreign Bondholders Council, Mr. James Grafton Rogers. He stated that the arrangement reached with the Foreign Bondholders Council had been attainable largely through the friendly cooperation and understanding of Mr. Rogers and he paid high tribute to his capacity.

Mr. Ballivián stated further that he felt that the visit of the Commission had contributed to further understanding between the ExImBank and the Bolivian Development Corporation and that with the dispatching of Public Roads Administration engineers to Bolivia, he felt that progress had been made toward eventual resumption of full

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<sup>1</sup> Enclosure in despatch 532, July 15, 1948 from the Embassy in Bolivia, not printed.



operation on the Cochabamba-Santa Cruz highway which, of course, would have to wait the engineers' report and the subsequent developments. However, he expressed regret that the ExImBank was not inclined to name a representative on the Board of Directors of the Fomento Corporation.

Mr. Ballivián stated further that the request made to the International Bank for Reconstruction and Development for a loan for the construction of a sugar mill in Bolivia had been favorably received and that the Bank was sending its own experts to Bolivia to look over the situation at first hand. He said that the loan envisaged would amount to about \$3,500,000 and that he hoped this transaction would be the beginning of further helpful relationships between the Bank and Bolivia.

JOSEPH FLACK

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824.6363/10-148 : Airgram

*The Acting Secretary of State to the Embassy in Bolivia*

WASHINGTON, November 9, 1948.

A-303. Reference Embassy's Airgram 464, October 1, 1948.<sup>1</sup> The Department is interested in the projected legislation defining the potential petroleum bearing areas of Bolivia that may be thrown open for development by foreign oil companies. It will be appreciated therefore if the Embassy will transmit any advance information regarding the legislation as soon as it is available.

If legislation is enacted that has the effect of inviting foreign capital to share the responsibility for developing Bolivia's oil resources with YPFB, this would establish a precedent which might have some effect in other Latin American countries with respect to liberalizing the terms of their petroleum laws. Consequently the Department hopes that the proposed legislation will represent a sincere effort on the part of the Bolivians to provide a favorable climate for the reentry of foreign private capital into the country.

In discussions with Mr. Mariaca<sup>2</sup> and the Bolivian Ambassador with respect to the loan that YPFB has requested for the development of the Bermejo field,<sup>3</sup> the Department did not give any encouragement that the loan application would receive favorable

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<sup>1</sup> Not printed.

<sup>2</sup> Guillermo Mariaca, General Manager, Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian Government monopoly).

<sup>3</sup> YPFB had applied for a \$2,500,000 loan from the Export-Import Bank for a drilling program at Bermejo (824.6363/12-1448). For documentation on Export-Import Bank funds made available to the government monopoly in 1942 and 1947, see *Foreign Relations*, 1942, vol. v, p. 595, and 1947, vol. viii, pp. 342 ff.

consideration. A principal factor in such consideration is of course the economic soundness of the use to be made of the funds. If the Bolivians can furnish tangible evidence of their willingness to allow private enterprise to assist in the development of their petroleum resources through the medium of an acceptable petroleum law, the Department would regard this as additional justification from its standpoint for giving favorable consideration to their loan application.

As the Embassy probably realizes, most of the oil companies in a position to undertake operations in a country like Bolivia have already made such heavy commitments for development elsewhere that there is serious question whether anyone will be in a position to enter Bolivia, even if the necessary legislation is enacted. The companies are also discouraged by the magnitude of the capital outlay that would be required to develop sufficient production in Bolivia to justify the heavy expenditure necessary to construct a pipe line outlet to the Pacific.

Pending completion of the projected Appraisal Survey and Report by Hoover, Curtice and Ruby on the Bermejo field, as well as on Camiri, the Department would appreciate the Embassy's preliminary views regarding the loan application.<sup>4</sup>

LOVETT

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<sup>4</sup> In despatch S29 of November 17, 1948, not printed, the Ambassador in Bolivia (Flack) transmitted a draft of a new proposed petroleum law for Bolivia. Replying to the last paragraph of A-303, he reported the Embassy's view that, even if the proposed law were enacted, the United States, for the present, at least, should refrain from granting a loan from public funds to YPFB for development of the Bermejo field (S24-6363/11-1748). The Bolivian Congress adjourned without taking any action on the proposed petroleum law which was introduced with Mr. Mariaca's approval.

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S24.154/11-1848

*Memorandum of Conversation, by Mr. Spencer M. King of the Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] November 18, 1948.

Subject: Cochabamba-Santa Cruz Highway

Participants: Bolivian Ambassador, Señor Don Ricardo Martinez Vargas.

ARA—Mr. Daniels<sup>1</sup>

NWC—Mr. King

On November 17, 1948, the Bolivian Ambassador called on Mr. Daniels to leave with him a copy of a formal application for interim credits of \$175,000 per month which he had presented to the Export-Import Bank the preceding day on behalf of the Bolivian Development Corporation which hopes to receive the funds to continue work

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<sup>1</sup> Paul C. Daniels, Director of the Office of American Republic Affairs.

on the Cochabamba-Santa Cruz Highway pending completion of a new contract with a United States construction firm.<sup>2</sup>

The Ambassador stated that he felt this to be the most important visit he had paid Mr. Daniels because of the vital importance to his country of ensuring that there would be no interruption of the Corporation's activities. He gave a brief resumé of the importance of the project in consideration of the precarious economic, social and political conditions existing in Bolivia and the international aspects of the program. He noted that the resources of the Corporation have been exhausted and that it cannot continue operations without the assistance requested of the Export-Import Bank.

Mr. Daniels asked the Ambassador to clarify the "international aspects" of the project. The Ambassador said there were two: Argentine-Brazilian rivalry and United States prestige and interests. On the first score, he mentioned Bolivia's role as a "buffer state" preventing open conflict between its two powerful neighbors. Each of these is building a railroad into eastern Bolivia and the region must be tied to the rest of the country by the Highway in order to avoid a conflict for control of the Santa Cruz area. On the second point, the Ambassador expressed his feeling that the friendly feelings existing between the United States and Bolivia might be jeopardized by any action which could be interpreted as a discontinuance of interest in the Highway on the part of the United States. He said that the "Fifth Column" would attack the United States and convince people that we had taken all we could from Bolivia during the war, made big promises of economic assistance and were now refusing to carry through a program begun only for our own selfish interests.

The Ambassador stated that there were several United States construction firms interested in undertaking the completion of the Highway. He seemed especially interested in one which he repeatedly called "The Miller Company". It is assumed that he referred to the Mills Company. He also mentioned the "Johnson Company of South Carolina" and the "Utah Company". Mr. Daniels pointed out that selection of a contractor was a problem of the Bolivians in which the Department could not be involved.

Mr. Daniels promised that the application would be studied and that the Department would do its best to obtain favorable action on the request for interim financing. The Ambassador stated that he was

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<sup>2</sup> In despatch 799 of November 5, 1948, not printed, the Ambassador in Bolivia (Flack) reported that the Chief of the Public Roads Administration Mission (Cottrell), which had been in Bolivia for the last five and one-half years to survey and prepare the engineering plans and specifications for the Cochabamba-Santa Cruz highway, had informed him that the entire survey and all the plans and specifications had been completed and members of the survey mission planned to depart about November 8 (824.154/11-548).



aware of the Bank's position as an economic agency, but he had approached the Department in the hope that the other aspects might be considered.

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824.154/12-248

*The Embassy of Bolivia to the Department of State*

The Embassy of Bolivia presents its compliments to the Department of State and refers to the enclosed copy of the letter<sup>1</sup> addressed to the Chairman of the Board of Directors of the Export-Import Bank informing him of the Bolivian Government's decision to continue the construction of the Cochabamba-Santa Cruz Highway until its conclusion, in accordance with the plans of the Public Roads Administration and the estimates of the Board of Review, sent to Bolivia last June, which set the total cost of the project at \$26,000,000.

The attached letter supplements the one previously addressed to the Chairman of the Board of Directors of the Export-Import Bank, under date of November 16, 1948, and memorandum on the subject, copies of which were also brought to the attention of the State Department.

The Government of Bolivia is convinced that the Department of State appreciates, in every respect, that the Cochabamba-Santa Cruz Highway is of vital significance to the very existence of Bolivia and that, if the project were abandoned, it would be impossible to carry out the Bohan Plan which has been the source of extensive cooperation between the Governments of the United States and Bolivia, particularly during the last war.

In this conviction, the Government of Bolivia trusts that, with the aid of the State Department, the Export-Import Bank will favorably consider the application for the total financing of the project and, in the meantime, will grant the interim credit which is now being negotiated.<sup>2</sup>

WASHINGTON, December 2, 1948.

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<sup>1</sup> Not printed.

<sup>2</sup> The Department acknowledged the Bolivian Embassy's memorandum on December 16, 1948 in a memorandum, not printed, which indicated that the application would receive the careful and sympathetic consideration of the Department, but added: "However, as the Bolivian Government is aware, the final decision rests with the Board of Directors of the Export-Import Bank."

711.00/12-448

*The Ambassador in Bolivia (Flack) to the Secretary of State*

SECRET

LA PAZ, December 4, 1948.

MY DEAR MR. SECRETARY: I have the honor to acknowledge receipt of the Acting Secretary's letter of October 23, 1948 with which was enclosed a copy of the September 20, 1948 issue of the "Policy Statement—Bolivia"<sup>1</sup> with regard to which you asked my frank comment and recommendation.

I am in complete agreement with the statement of objectives.

In the statement of policy issues, I wish to emphasize also my complete agreement with the statement that the economic, cultural and political conditions of the Bolivian population constitute a challenge to the effectiveness of the system of free enterprise as compared with promises which totalitarian systems may hold out to them. It is for this reason that I consider that the work of the Inter-American Institute in Bolivia comprising the cooperative program of the Inter-American Educational Foundation and the cooperative Sanitary and Health program are most valuable. At the same time I consider that the Agricultural Experiment Station program set up under mutual agreement of our two Governments is likewise an important element in the improvement of fundamental conditions of life in Bolivia.

With regard to international organizations, I have previously reported to the Department that a small country like Bolivia faces difficulty in participating in the almost innumerable organizations which the complicated international life of today has brought into being. Bolivian participation in such organizations is difficult for financial reasons, since such participation must be financed by foreign exchange and repeated contributions of even such small amounts as \$25,000 at a time become heavy burdens for a small country like Bolivia. There is also a lack of qualified material to provide intelligently qualified representatives in such organizations or to handle the multifarious questions which the central government is expected to determine for the purpose of instructing its delegates participating in various international organizations. Only yesterday I was talking with a diplomatic representative of one of the leading European countries who made the observation that the Bolivian Government had absolutely no knowledge of the problems of his country which at this

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<sup>1</sup> Neither printed.

time were being dealt with in the United Nations Assembly where Bolivia had a vote. An explanation for this is that Bolivia has no regular diplomatic service and does not have a regular civil service and that Ministers and Chiefs of Mission and subordinate diplomatic representatives are subject to change according to the will of the administration; consequently, few persons well informed in international matters are developed under such a system, although it is axiomatic that Latin Americans are very astute politicians in their local fields.

The cultural and information programs which we are conducting are in my opinion well designed to supply some of the lack in knowledge of international affairs which I have noted above, since they provide for exchanges of students, travel grants and information from abroad. On the political side I am in agreement with the Department's statement that at present there is no major political problem to complicate our relations with Bolivia beyond the question of Bolivia's internal political instability. This factor has been very strongly demonstrated in the present session of the Bolivian Congress where little has been accomplished other than bickering between the parties. Furthermore, the Government has not rallied sufficient numerical strength in either branch of the Congress thus far to enact essential legislation such as new taxation measures, the budget, and various international treaties which are important to Bolivia and to the Hemisphere. While it may be said that a higher type of intellectual and cultural representative should be elected to the Bolivian Congress, nevertheless, it is the people who elect the representatives and until the general cultural, intellectual and political level of the country has risen, it does not seem likely that there will be much improvement in this respect.

At the present time, it is the Embassy's collective opinion that the Bolivian Armed Forces are loyal to the Government of President Hertzog, since most of their leaders suffered at the hands of the Villaroel<sup>2</sup> Government and have expressed the opinion to members of the Embassy that the Army should remain outside of politics.

With regard to comments on economic aspects, I feel that our Government should leave no stone unturned to provide the necessary financial assistance for the completion of the Cochabamba-Santa Cruz highway once the Bolivian Congress has given its authorization to the additional \$26,000,000 credit which now appears to be necessary for this purpose. Should we fail to do this, the Bolivians will consider that the United States was unable to complete this project which will enable Western Bolivia to tap the resources of Santa Cruz simultaneously with the arrival there of railways now being built to that point from Brazil and Argentina. The completion of the highway before or

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<sup>2</sup> Lt. Col. Gualberto Villaroel, former President of Bolivia, killed in the revolution of July 1946.



simultaneous with the completion of the railways mentioned will also tend to reduce the rival interests of Brazil and Argentina in Bolivia and thus tend to stabilize relations among the three countries.

I am likewise in complete agreement with the statement that our Government does not propose to consider financial assistance for the second part of the Bohan program until satisfactory completion of the highway is assured. I feel also that it will be useful to have the Bohan program revised by a competent technical mission sometime in the future since the Bolivian Government has already observed that the Bohan program did not contemplate the development of hydroelectric power nor the problems of immigration into Bolivia, both of which it regards as important.

In connection with our tin policy toward Bolivia, I feel that assistance in exploring the possibility of reducing the cost of tin production would be most helpful but I feel that at the same time there must also exist in Bolivia undiscovered rich deposits which should enable Bolivia to continue production for an indefinite period.

In the development of Bolivia's petroleum reserves, I feel that since Bolivia is such a poor country and the expense of such development is so high due to the difficult terrain and distance from markets, that private venture capital alone will in the long run, if admitted into Bolivia under satisfactory conditions, be successful in bringing about important production in Bolivia.

Since the preparation of the Policy Statement, there was signed with Bolivia on September 29, 1948 a Bilateral Air Transport Agreement<sup>3</sup> which is now awaiting congressional ratification to bring it into force.

In connection with the financial difficulties which the Bolivian Government has encountered as a result of the budgetary practices in the past, there is now pending in the Office of the Minister of Finance the question of inviting United States tax experts to come to Bolivia. However, in view of a tax reform bill which has just been introduced into Congress, it is believed that no action will be taken with regard to bringing these experts to Bolivia until after the tax measure has been acted upon. Though not stated in so many words, the Embassy understands that the Government holds the view that if the tax experts came to Bolivia before the enactment of the proposed legislation, the Government might be charged with bringing in foreign influence, and for political reasons it appears to desire to avoid such an accusation.

The negotiated settlement between the representatives of the Bolivian Government and Foreign Bondholders Council is now be-

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<sup>3</sup> See p. 349.

fore Congress for its approval and may be acted upon after a favorable majority report if sufficient time remains in the present session.

I concur in the concluding statement of policy evaluation, that acceleration of the type of assistance now being given Bolivia would be advantageous to progress in Bolivia, which would result in making Bolivia a more effective member of the American nations. I think this is particularly true with regard to the steps necessary to complete the Cochabamba-Santa Cruz highway which have encountered considerable delays, but I feel that since we are morally committed to the completion of this highway, every step to be taken in Washington should be accelerated, for in this way we will prove more concretely to Bolivia that we are deeply interested in her welfare as a functioning member of the Hemisphere system.

Respectfully yours,

JOSEPH FLACK

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824.154/12-2748

*Memorandum by Mr. Spencer M. King of the Division of North and West Coast Affairs to the Director, Office of American Republic Affairs (Daniels)*

SECRET

[WASHINGTON,] December 27, 1948.

Subject: Interim Credits for Bolivian Development Corporation

You will recall that we decided to support the Bolivian Ambassador's request that the Export-Import Bank make available to the Bolivian Development Corporation (BDC) sufficient funds to enable it to continue maintenance and limited construction operations on the Cochabamba-Santa Cruz Highway until such time as a credit for the project's completion by a US contractor was arranged. We agreed that the Ambassador's fears of serious repercussions and waste of material and equipment, were operations to be suspended, appeared well founded.

On December 21, word was received that the Staff of the Export-Import Bank was prepared to recommend that the Bolivian application for interim credits be denied. However, in view of the political implications of such a move, the Staff agreed to present the subject to the December 22nd meeting of the Board of Directors without recommendations. It seemed that the Staff's opposition was based on several unproven assumptions which, in brief, indicated a belief that BDC did have adequate funds in spite of contrary information received from La Paz and the Bolivian Embassy here. With my collaboration, ED prepared a memorandum for Mr. Thorp<sup>1</sup> with the result that the Board meeting postponed final consideration until the meeting

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<sup>1</sup> Willard L. Thorp, Assistant Secretary of State for Economic Affairs.

to take place on the 29th. Meanwhile, a telegram was sent to Embassy La Paz requesting up to date figures on the financial position of BDC and the Embassy's estimate of possible repercussions were all operations to be suspended for the time being.

The Embassy's reply (telegram 638, December 23, copy attached),<sup>2</sup> although agreeing that a suspension of operations would have undesirable repercussions, indicates that BDC can continue its present operations through the first quarter of 1949 with a deficit of only 2,500,000 bolivianos (US\$59,523.81) for the period. This information contradicts the Bolivian Ambassador's statements that BDC is without funds and must have interim credits of \$175,000 per month or operations will be suspended. However, the Bank has been of assistance in that an amortization payment of \$142,000, due from BDC on December 31, was postponed recently until June 30, 1949, thus making this amount available to finance current operations. BDC also will be able to draw \$130,000 remaining from the \$320,000 Export-Import Bank credit granted in October as reimbursement to BDC for expenses involved in the completion of the survey and plans by PRA.

This leaves the Department with no good reason for urging that interim credits be granted, especially since the Bank hopes to decide on the application for \$26,000,000 within the next two months. Unless we indicate otherwise, ED will withdraw its recommendation and the meeting of the Board of Directors on the 29th undoubtedly will refuse the Bolivian application for interim credits. I see no reason to interfere.<sup>3</sup>

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<sup>2</sup> Not printed.

<sup>3</sup> On October 28, 1949 the Bank authorized a credit of up to \$16 million in favor of the Government of Bolivia to finance two-thirds of the cost of completing the Cochabamba-Santa Cruz highway.

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#### EFFORTS TO LIQUIDATE THE LEND-LEASE ACCOUNT WITH BOLIVIA<sup>1</sup>

824.24/9-1548

*Memorandum by Mr. Charles W. Kempter of the Division of  
Economic-Property Policy<sup>2</sup>*

CONFIDENTIAL

WASHINGTON, October 15, 1948.

For the confidential information and guidance of interested United States Government offices and officials there are transmitted herewith copies and/or translations of certain notes exchanged between the American Embassy in La Paz, Bolivia, and the Ministry of Foreign

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 384-390.

<sup>2</sup> Copy transmitted to the Ambassador in Bolivia (Flack) in instruction 177, October 20, 1948, not printed.



Affairs and Worship of the Government of Bolivia during the latter part of 1947.<sup>3</sup>

It may be noted that, through this exchange of notes there was made effective a

#### BOLIVIAN LEND-LEASE SETTLEMENT ARRANGEMENT

providing for the re-scheduling and final liquidation of the repayment responsibility of the Government of Bolivia within the general terms and conditions of the Lend-Lease Agreement of December 6, 1941.<sup>4</sup>

Although, in the exchange of notes, it was first indicated that the overall repayment responsibility might be approximately \$925,000 and was later reduced to \$916,000, final reportings and billings sent to the Government of Bolivia show the correct amount to be \$915,644.21. For that reason the final payment scheduled in this settlement arrangement (refer to Embassy's note No. 369, July 23, 1947, subparagraph C-3) will be in the amount of \$15,644.21 and not \$25,000 as stated.

The first three (3) amortization payments of \$150,000, each, have been made in Bolivian bolivianos as provided in the arrangement.<sup>5</sup> The balance remaining to be paid as scheduled is \$465,644.21.

Contingent lend-lease accounts, such as cash reimbursable accounts or other similar accounts, where such may exist, are not covered by this settlement arrangement and are subject to treatment separate and apart from the "treaty" account both for billing and settlement negotiations.

Enclosures: <sup>6</sup>

1. Note No. 366, July 17, 1947, from Embassy, La Paz to the Bolivian Ministry of Foreign Affairs and Worship.
2. Note No. 369, July 23, 1947, from Embassy, La Paz, to the Bolivian Ministry of Foreign Affairs and Worship.
3. Note G.S. 536, November 22, 1947, (translation) from Bolivian Ministry of Foreign Affairs and Worship to the Chargé

<sup>3</sup> None printed; see footnote 6, *infra*.

<sup>4</sup> For agreement signed December 6, 1941, see *Foreign Relations*, 1941, vol. vi, p. 428.

<sup>5</sup> Payments corresponding to July 1, 1947, January 1, 1948, and July 1, 1948. Further payments would be due on January 1, 1949 (\$150,000.00), July 1, 1949 (\$100,000.00), January 1, 1950 (\$100,000.00), July 1, 1950 (\$100,000.00), and January 1, 1951 (\$15,644.21).

<sup>6</sup> None printed: these three communications were transmitted to the Department in despatch 643, September 2, 1948 from the Embassy in Bolivia (824.24/9-248). Two additional notes in this exchange of correspondence relating to the lend-lease settlement with Bolivia were transmitted to the Department in despatch 919 of December 31, 1948: the Embassy's Note no. 706 of October 27, 1948 to the Minister for Foreign Affairs, and the Foreign Minister's reply no. A.G. 485 of November 16, 1948 (824.24/12-3148).

d'Affaires *ad interim* at the Embassy in La Paz, accompanied by—

(a) Translation of Supreme Resolution No. 26027, October 10, 1947, by Bolivian Ministry of Finance.

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824.24/9-1548

*The Acting Secretary of State to the Ambassador of Bolivia  
(Martinez Vargas)*

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Bolivia and has the honor to refer to the Department's note of June 30, 1948, to the Embassy with which there were transmitted Statements LL-15 and LL-16<sup>1</sup> reporting charges against the Government of Bolivia for defense aid transferred up to March 31, 1948 under the terms of the Lend-Lease Agreement of December 6, 1941.

It now may be stated that, in the absence of any further billings from the United States Government's procurement agencies since the date covered by Statement LL-16, the figures reported in the Department's note of June 30, 1948 are to be considered complete and final. Therefore, it will be noted that the total value of defense aid transferred to the Government of Bolivia is \$5,036,546.81 and that the overall repayment responsibility of the Government of Bolivia is \$915,644.21.

Inasmuch as a settlement arrangement effected between the American Embassy in La Paz and the Government of Bolivia in November of 1947, supported by Supreme Resolution No. 26027 promulgated on October 10, 1947 by the Bolivian Ministry of the Treasury, provided for settlement of the lend-lease account in the amount of \$916,000 of which the equivalent of \$600,000 is payable in Bolivianos and the remainder in United States Dollars, an instruction has been sent by the Department to the American Embassy in La Paz requesting that appropriate authorities of the Government of Bolivia be informed that that amount of the settlement payable in Dollars, in the manner specified in the settlement arrangement, shall be \$315,644.21 and not \$316,000 as provided therein.

The Government of Bolivia, of course, understands that the settlement arrangement concluded in November 1947 covers only defense aid transferred under the specific terms of the Lend-Lease Agreement of December 6, 1941 and does not include nor refer to any outstanding unpaid accounts of contingent character such as cash reimbursable transactions, transportation accounts or other accounts

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<sup>1</sup>Not printed.

of similar character. Settlement of such responsibilities, where they may exist, shall be separate and apart from the settlement already arranged in the case of the formal lend-lease account. It is hoped by this Government that appropriate action on the part of the Bolivian Government will be undertaken for their settlement as soon as possible.

WASHINGTON, October 20, 1948.

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CONTINUING EFFORTS TO ELIMINATE AXIS ECONOMIC INTERESTS  
IN BOLIVIA<sup>1</sup>

740.24112A/4-848

*The Acting Secretary of State to the Embassy in Bolivia*

CONFIDENTIAL

WASHINGTON, April 28, 1948.

No. 73

The Acting Secretary of State refers to the Embassy's despatch no. 209 of April 8, 1948<sup>2</sup> concerning the Bolivian Replacement Program.

The Department appreciates the difficulties which have confronted the Embassy in its efforts to obtain compliance with the obligations which Bolivia undertook under the Final Act of the Mexico City Conference of 1945,<sup>3</sup> and has taken cognizance of the excellent work done by the Embassy in this direction.

With regard to the request made by Señor Gutierrez<sup>4</sup> for a statement of the specific charges against certain Bolivian firms, it should be noted that the Department's interest in the Bolivian Replacement Program is at this time chiefly concerned with the following three firms:

Juan Elsner y Cia  
Kyllman, Bauer y Cia  
Zeller, Moser y Cia

In all three instances, the Department's interest arises from the fact that these firms are regarded as being beneficially owned by Germans resident in Germany. Such ownership from Germany is in itself considered objectionable, even in the absence of inimical activities on the part of the firms or their personnel in Bolivia. On these points, the Department has no information other than that submitted to it by the Embassy during the past few years. In this connection, the Em-

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 378-384.

<sup>2</sup> Not printed.

<sup>3</sup> For the Final Act, see *Report of the Delegation of the United States of America to the Inter-American Conference on Problems of War and Peace, Mexico City, Mexico, February 21-March 8, 1945*, p. 39; for documentation on this Conference, see *Foreign Relations*, 1945, vol. VIII, pp. 1 ff.

<sup>4</sup> Arturo Gutierrez Tezanos Pinto, Minister of National Economy.



bassy is specifically referred to despatches no. 955 of June 5, 1945, no. 2141 of January 25, 1946, and no. 2396 of March 13, 1946.<sup>5</sup>

For the strictly confidential information of the Embassy at La Paz only, it may be noted that the Department has sought the concurrence of the British and French Governments to a proposal that the three governments disassociate themselves entirely from the programs of the various other American republics for the elimination of German external assets, except for making available to those countries without comment or recommendations any factual information which they may request.

The Department has not yet received any indication of the attitude of the British or French Governments toward this proposal, but will be content for the time being to see the Embassy relax its efforts with regard to the Bolivian Replacement Program. In accordance with the foregoing, there is of course no objection to the presentation to the Bolivian Government of information or evidence with regard to the beneficial German ownership of the three named firms, if such information or evidence is not already known to the Bolivians.

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<sup>5</sup> Despatch 955 of June 5, 1945, not printed; for despatch 2141 of January 25, 1946 and memorandum of March 12, 1946, see *Foreign Relations*, 1946, vol. xi, pp. 404 and 406.

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740.24112A/6-1048

*The Ambassador in Bolivia (Flack) to the Secretary of State*

CONFIDENTIAL

LA PAZ, June 10, 1948.

No. 418

SIR: I have the honor to refer to the efforts of this Embassy to induce the Bolivian Government to carry through an effective replacement program and specifically to the following correspondence on this subject:

Despatch no. 1165, March 28, 1947,<sup>1</sup> entitled "Economic Defense Board Issues Resolution Excluding Specified Firms from Benefits of Provisions of Supreme Decree Listing Restrictions on Axis Firms and Individuals".

Embassy's Confidential Airgram no. 188, May 16, 1947.<sup>1</sup>

Department's Confidential Instruction no. 73, April 28, 1948.

During the month of May, numerous meetings were held by Embassy representatives with various officials of the Bolivian Government including the Minister of Economy and the Sub-Secretary for Foreign Affairs in an effort to obtain effective action against Kyll-

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<sup>1</sup> Not printed.

mann Bauer y Cia., Zeller-Mozer y Cia., and Juan Elsner y Cia. The Bolivian officials indicated their desire to cooperate with the Embassy to terminate the troublesome question of the replacement program once and for all. As a result of these discussions, the Embassy drafted a Resolution which was supplied to the Foreign Office informally at the request of the Sub-Secretary. (See enclosure no. 1.<sup>2</sup>) It will be noted that this draft was not an effort on the part of the Embassy to interfere with the functioning of the Economic Defense Board, nor did it dictate to that agency any procedure to be followed in solving the question of the three concerns involved. It merely provided that the firms should present themselves before the Economic Defense Board within thirty days to be informed regarding the action each must take to enjoy the benefits of Supreme Decree no. 00716 of February 12, 1947. The draft was an effort to rectify the omission of penalties in the Supreme Resolution of March 3, 1947.

Both the Minister of Economy and the Sub-Secretary for Foreign Affairs agreed to promulgate this Resolution and repeatedly asserted that this would be done "next week".

On June 9 there appeared in the local press a Supreme Resolution issued by the Ministry of Economy ordering the firm of Velasco y Cia (formerly Elsner y Cia) to prove within twenty days that the former owners have no participation in the control and profits of the firm. The resolution does not mention Kyllmann Bauer or Zeller Mozer. (See enclosure no. 2.<sup>2</sup>)

At the request of Mr. Luis Romero Saenz, Chief of the Section of Treaties and International Conventions in the Foreign Office, representatives of the Embassy called on June 9 to discuss the status of the replacement program. They were informed that only Velasco y Cia had been included in the provisions of the Supreme Resolution because the other two firms had presented documentary proof of the elimination of the former objectionable interests. However, before a final decision is made, the Foreign Office wishes the Embassy to examine said documentary evidence. Mr. Romero stated that any comments which the Embassy wished to make concerning the proof of elimination of Axis influences would be welcome.

It is the Embassy's opinion that no effective measures will be taken against the three spear-head firms. The procedure being carried out will save the face of the Embassy and of the Bolivian Government but will accomplish nothing. It is felt that this situation should be accepted since it is doubtful that it ever will be possible to do anything more on the Bolivian Replacement Program. The Embassy will ex-

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<sup>2</sup> Not printed.

amine the documents concerning Kyllmann Bauer and Zeller Mozer and will make comments thereon, but it is assumed that they will be officially cleared and freed of all restrictions. It is assumed that whatever documents Velasco and Company may present to the Economic Defense Board will be given to the Embassy for examination and comment. Through this procedure the replacement program will become a dead issue without serious injury to the Nazi elements involved.<sup>3</sup>

Respectfully yours,

For the Ambassador:

RICHARD A. JOHNSON

*Second Secretary of Embassy*

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<sup>3</sup> In despatch 215, March 30, 1949, not printed, Ambassador Flack reported on the lifting of restrictions during 1948 on all spearhead firms excluded from the benefits of the Supreme Decree of February 12, 1947 and concluded: "Thus, almost completely normal trade relations have been renewed with all spearhead firms and the replacement program is now a dead issue" (740.24112A/3-3049).

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#### AIR TRANSPORT AGREEMENT BETWEEN THE UNITED STATES AND BOLIVIA

[For agreement signed at La Paz September 29, 1948, approved by the Bolivian Council of Ministers November 4, 1948, entered into force November 4, 1948, see United States Treaties and Other International Agreements Series No. 5507, or 14 UST 2209.]



## BRAZIL

### ASSURANCES TO BRAZIL CONCERNING UNITED STATES OPPOSITION TO AGGRESSION OF ANY TYPE

710.35/10-2848 : Telegram

*The Ambassador in Brazil (Johnson) to the Secretary of State*

SECRET

RIO DE JANEIRO, October 28, 1948—7 p. m.

1152. I saw Acting Foreign Minister Accioly today at his request. He said that he had been asked by President Dutra to tell me of his growing concern at the situation in the Argentine, with particular reference to Argentine intrigues in Uruguay and Paraguay. Mr. Accioly explained in some detail Brazilian apprehensions and what he said tallied closely with statements made by Mr. Rubens de Mello<sup>1</sup> reported in mytel 1133, October 21, 8 p. m.<sup>2</sup> Mr. Accioly in fact referred to my talk with Mr. de Mello. Acting Foreign Minister particularly emphasized lack of confidence which his govt has in Perón<sup>3</sup> and their growing apprehension that Perón's megalomania will lead him into dangerous adventures. It is not a question, he said, of a direct attack on Uruguay or Paraguay, but of Argentine infiltration and intrigue and possible fomenting of disturbances which would result in changes of government in those countries subservient to Perón. Ultimate ambition of the Argentine in the opinion here would be a Platine confederation dominated by the Argentine in which Uruguay and Paraguay would enter ostensibly of their own volition but in fact through governments under Argentine domination. If the Argentine is able to bring about such changes in the regimes in Uruguay and Paraguay, the result would be a situation dangerous to Brazil and Mr. Accioly said that they felt compelled to ask "where Brazil stands with the United States".

I replied to Mr. Accioly that I would, of course, report his remarks to my govt and would let him know what answer I might receive as soon as possible. I said, however, that without awaiting a reply, I could assure him that the United States was, as he knew, vitally interested in the safety and peace of the hemisphere and that we would faithfully observe all of our treaty obligations. Mr. Accioly in this

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<sup>1</sup> Chief, Economic Division, Brazilian Foreign Office.

<sup>2</sup> Not printed.

<sup>3</sup> Juan D. Perón, President of Argentina.

connection remarked that the Rio Convention <sup>4</sup> was not yet in force. I am convinced from this talk with Mr. Accioly as well as previous indications that the Brazilian Govt is receiving information from Uruguay, Paraguay and the Argentine which is increasingly grave in character and that they are genuinely alarmed. The great rise in the armament level of the Argentine <sup>5</sup> which gives that country a position considerably superior to what it was at the end of the war is a matter of real anxiety. Although I did not tell Mr. Accioly that I had received a reply to the representations of Mr. Rubens de Mello, (the Dept's 741, October 22, 7 p. m.<sup>6</sup>) I did point out to him our interest in the general peace and amity of the entire hemisphere, and consequently our desire for Argentina to be fully integrated in the American system. I commented in this connection that in my personal opinion the American military mission in the Argentine, which Mr. Accioly mentioned, should serve rather as a guarantee than as an indication of any aggressive intentions on part of the Argentine. It would not be likely, I said, that the Argentine could be planning any foreign adventures which would be hidden from these American instructors who are teaching them how to use important portions of their armaments. I likewise pointed out to the Acting Foreign Minister that there had been no change in our long and loyal friendship with Brazil which was as firm as ever and that I felt certain he himself was convinced of that. I said that in time of peace it was impossible for the US in its relations with other American countries to take sides openly, that without regard to the character of Perón or the nature of the present Argentine Government, it seemed to me to be in the interest of all of us for the Argentine to be made a genuine part of the American system. Mr. Accioly received my remarks politely but there is no doubt in my mind that he and his government are very desirous to have from us something which they can consider a reinsurance of their present position. They are thinking essentially in terms of a future situation which they fear will arise in the event of a war between the US and Soviet Union. They cannot understand this great increase in Argentine armament as they do not believe that the Argentine would be involved in any world war but would remain neutral at almost any cost.

If something cannot be done to quiet the sincere, even if exaggerated, apprehensions of Brazil and possibly Uruguay and Paraguay, continued increase of armaments by Argentina may lead to an armament race between that country and its neighbors with undesirable results.

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<sup>4</sup> For text, see Department of State, *Treaties and Other International Acts Series No. 1838*. For documentation on the Conference, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.

<sup>5</sup> For documentation on the position of the United States with respect to Argentine armament, see pp. 310 ff.

<sup>6</sup> Not printed.

I understand that it may be difficult for us to meet this situation in a manner entirely satisfactory to Brazil and the two small countries of the River Plate, but a total lack of response cannot but prejudice the attitude of Brazil towards US. They have no confidence in Perón and consider him a megalomaniac, capable of anything which he may think he can get away with.

Sent Dept 1152, repeated Buenos Aires, Montevideo, Asuncion, La Paz.

JOHNSON

710.35/10-2848 : Telegram

*The Acting Secretary of State to the Embassy in Brazil*

SECRET

WASHINGTON, November 3, 1948—7 p. m.

761. Dept commends you for statement made Braz FonMin as excellent interpretation Dept's policies and views (ref Secret Embtel 1152, Oct 28). Telegraph your understanding what further assurances Accioly may desire from query "where Brazil stands with the U.S."

If you consider it necessary, you may again reassure Braz Govt that this Govt fully appreciates implications River Plate situation and that regardless whether or not Rio Pact has been ratified Govt U.S., in accordance with inter-Amer principles, opposes aggression of any type which may endanger safety and peace of Hemisphere and territorial integrity or independence any American state.

LOVETT

### INTEREST OF THE UNITED STATES IN BRAZILIAN PETROLEUM LEGISLATION<sup>1</sup>

832.6363/1-2648 : Telegram

*The Chargé in Brazil (Key) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, January 26, 1948—5 p. m.

83. 1. Embassy has been unable thus far to obtain copy of revised draft petrol law (Deptel 10, January 6<sup>2</sup>).

2. On January 15 investment committee approved by majority vote and submitted to President Dutra<sup>3</sup> report on revised draft. Published

<sup>1</sup> For documentation on the interest of the United States in Brazilian petroleum legislation in 1947, see *Foreign Relations*, 1947, vol. VIII, p. 458.

<sup>2</sup> Telegram 10 to Rio de Janeiro not printed. In telegram 6, also of January 6, 1948, the Department had instructed the Embassy in Brazil to seek a copy of the proposed law and an opportunity to offer comments before the draft was sent to the Brazilian Congress. Telegram 6 is printed in *Foreign Relations*, 1947, vol. VIII, p. 466.

<sup>3</sup> General Eurico Gaspar Dutra, President of Brazil.



excerpts thereof reveal committee suggested foreign capital be permitted compete on equal terms with national in exploitation and distribution petroleum for internal consumption but foreign investment in refinery operations and specialized transportation facilities petroleum for internal consumption be restricted to maximum 40% stock holding with right to vote. Other suggestions by committee if correctly reported in press probably would be unacceptable to foreign capital.

3. Embassy is informed report investment committee has been disappointing to President and since presentation he has been marshalling arguments and opinions from other sources, including Cabinet Ministers, to support amending revised draft law to make it acceptable foreign capital.

4. Embassy understands both Foreign Minister and War Minister<sup>4</sup> have expressed themselves as being opposed any restrictions on foreign investment in refinery operation and inland transportation facilities.

5. President Dutra has been fully apprised by Ambassador Pawley and the high American officials, who visited Brazil last year, concerning US views with respect to development petrol resources. . . . Embassy does not feel, therefore, that it would help matters at this juncture to use present critical supply situation as opening to reiterate these views to President and request him to make available copy of revised draft law which he recognizes as unsatisfactory and is endeavoring to amend to eliminate undesirable features.

6. It should be pointed out that supply situation is being interpreted by certain elements of general staff and influential Brazilians, opposed to liberal oil legislation, as pressure being exerted by foreign producers to induce government to enact a law favorable to their interests.

7. Embassy fears that were it to approach President at this time, even informally, with respect to projected petrol law that such action would be seized on by this opposition to openly allege that US Government has associated itself with the foreign companies in applying pressure to Brazil.

8. Every effort has been made and will continue to be made to cause enactment of liberal petrol legislation. It would be helpful in connection with overall aspects of this problem and particularly with respect to Paragraph 6 above if Department could prevail on Standard, the only American supplier of fuel oil, to schedule soonest one or two additional cargos of fuel oil to relieve the acute shortage

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<sup>4</sup> Raul Fernandes and Maj. Gen. Canrobert Pereira da Costa, respectively.

this combustible. Fuel oil is being severely rationed unofficially but will continue at point of exhaustion if a minimum supply cannot be put into distribution system and thereafter tankers scheduled with some regularity within the limitations of world supply situation.

KEY

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832.6363/1-2648 : Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, January 27, 1948—6 p. m.

76. Your suggestion that you not at this time approach President Dutra on oil legislation approved view considerations advanced urtel 83 Jan 26. However Dept hopes consultation with Braz authorities on possible objectionable features of bill will be possible before presentation to Braz Congress.

Oil supplies are critically short in this country and there is rising popular demand for steps to remedy situation. House Commerce Committee yesterday recommended embargo on all oil exports from US and use of all American flag tankers only for discharge at US ports. Principally because of tanker shortage oil shipments to all European and South American countries by American companies from non-US sources have been drastically cut. Brazil is not being discriminated against. On contrary receiving better treatment than many other countries. Factor is that Braz oil requirements have increased materially. You should make these facts clear in conversations to correct misapprehensions indicated pgh 6 urtel.<sup>1</sup>

Re pgh 8 Jersey informs Dept that 387,000 barrels fuel oil were loaded for Braz Jan 1948 as compared with Jan 1947 shipments of 359,000 barrels and indicated demand 377,000 barrels. Shipments in Dec were low but totals for two months were approx 75 percent of demand. These figures should be checked with local Standard office but should dispose of allegations that supply situation being utilized to exert pressure. In view tanker shortage it is probable deliveries 1948 can only approximate deliveries 1947.

MARSHALL

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<sup>1</sup> Paragraph 6 of telegram 83, *supra*.

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*Editorial Note*

On February 5, 1948, the Chargé in Brazil received a free translation of the revised draft petroleum law. The principal terms of this draft, as transmitted by Key on that date to the Department of State in his

telegram 115, February 5, not printed, were as follows: 1) Foreign capital companies, when established in accordance with Brazilian law, would receive concessions for exploration, developing, transporting and refining petroleum. They would produce only for exportation. 2) The domestic market would be limited to companies financially controlled by Brazilians and organized in Brazil. 3) The foreign companies described in Item 1 would not be permitted to export until the national companies were prepared to supply the domestic market. 4) Foreign installations would be nationalized without indemnity on expiration of concessions, which would be granted for a period not exceeding 40 years. 5) A formula would be devised to determine indemnity payments when the Government, on authority of a Congressional law, chose to buy back a concession prior to its termination.

The Chargé added that certain amendments, if approved by Congress, would be attached to the bill and would tend to render the law more liberal (S32.6363/2-548).

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S32.6363/2-648 : Telegram

*The Secretary of State to the Embassy in Brazil*

US URGENT

WASHINGTON, February 6, 1948.

109. Following from Commerce: Adverse weather conditions and abnormally low stocks have aggravated critical shortages of all petroleum heating fuels throughout large areas of the United States.

The seriousness of these shortages has led the Department of Commerce to reduce first quarter export allocations, effective January 30, 1948, as follows:

(Unit—Barrels)			
<u>Schedule B Number</u>	<u>Description</u>	<u>Original Quota</u>	<u>Revised Quota</u>
501700	Other Motor Gasoline.....	5, 250, 000	4, 550, 000
502700	Kerosene.....	900, 000	600, 000
503000	Gas Oil and Distillate Fuel Oil...	3, 200, 000	2, 800, 000
503100	Residual Fuel Oil.....	1, 800, 000	1, 000, 000

In addition, the separate quota of 1,600,000 barrels of gas oil and distillate fuel oil, established for Japan and Ryukyus, has been reduced to 100,000 barrels [*sic*].

The revision of first quarter export allocations has not resulted in reductions of the original country allocation to Brazil. Concern is increasing over diminishing U.S. stocks of all allocated petroleum and petroleum products. The course of events may necessitate further reductions of all export allocations.



In the light of the revised first quarter allocations and continuing critical U.S. shortages of petroleum heating oils and aviation gasoline and motor gasoline, the Mission is requested to consult *immediately* with representatives of the Brazilian Government to determine what reductions in the first quarter petroleum allocations to Brazil can be achieved without probable serious economic disruption. Information urgently required as to detail of essential end uses of petroleum from U.S. in Brazil and the effect on the economy of possible reductions.

It is urgent that OIT receive your reply not later than Wednesday, February 11, 1948.

MARSHALL

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832.6363/2-1048 : Telegram

*The Chargé in Brazil (Key) to the Secretary of State*

RIO DE JANEIRO, February 10, 1948—3 p. m.

128. For Commerce. Deptel 109. February 6. Holidays preclude consultation representatives Brazilian Government, as result material cuts shipping petroleum products already in short supply. Situation is such that Embassy feels strongly it should not be further aggravated this time by reductions first quarter allocation. All petroleum products being rationed unofficially except fuel oil which has been subject official rationing since December. Anticipate official rationing will be extended near future all products.

US supplies used largely motor transportation which already adversely affected by petroleum shortage. Reduction allocations also likely to provoke unfavorable reaction in connection with petroleum legislation about to be submitted Congress.

KEY

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832.6363/2-1448

*The Secretary of State to the Chargé in Brazil (Key)*

No. 53

WASHINGTON, February 14, 1948.

SUR: There is enclosed, for the Embassy's information and use, a memorandum<sup>1</sup> prepared in the Department which summarizes certain thoughts in regard to Brazilian petroleum development. The Ambassador and other members of the Embassy staff who have been dealing directly with the petroleum problem are, of course, fully aware of the points discussed in the memorandum and have brought them out

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<sup>1</sup> *Infra.*

in their conversations on the subject with Brazilian officials but it is believed that the memorandum will be useful in serving as a guide to other members of the staff who are not so fully informed concerning the problem.

The Department is of the opinion that large-scale petroleum development in Brazil is to that country's own manifest interest in many particulars and that there is little chance of its being achieved except by the participation, under satisfactory conditions, of foreign capital. It feels that some of the opposition which has been shown in various Brazilian circles, notably among high officers of the Brazilian armed services, to the enactment of legislation which would enable foreign participation in Brazilian petroleum development may well be due to inadequate knowledge of the factors involved.

The Department suggests the possibility that members of the Embassy staff and representatives of other United States Government agencies in Brazil, including American members of the Joint Brazil-United States Military Commission, could discreetly help to overcome some of the misapprehensions as to the petroleum situation which may exist among Brazilians, both official and unofficial, with whom they have friendly relations. You are consequently authorized, in your discretion, to bring the contents of the enclosed memorandum to the attention of such persons as background for such conversations as they may have on this subject. It should, of course, be understood that access to the memorandum should be restricted to United States Government officials.

Very truly yours,

For the Secretary of State:

PAUL C. DANIELS

*Director, Office of  
American Republic Affairs*

[Enclosure]

*Memorandum on Brazilian Petroleum Development*

Brazil today produces only a small fraction of its needs in petroleum and petroleum products and is almost entirely dependent upon foreign sources of supply. The present shortage of oil and transportation facilities in the western hemisphere has already created difficulties in meeting Brazil's peacetime requirements which emphasize the need for developing adequate sources of supply within its own territory. Should another major war occur, Brazil's oil supply situation would probably become much more critical than even in the last war.

Past experience has shown that the best way to develop an oil in-

dustry is by free enterprise without nationalistic restrictions. That is the way in which the oil industry of the United States, the most successful and largest in the world, was formed, with participation by companies controlled abroad.

The oil industry has become such a complex one that only experienced companies have the technical skill, personnel and resources to engage in major oil development with maximum efficiency. The essence of the industry is competition and best results have usually been obtained by the participation of several entities in any area. The discovery and development of petroleum is an industry involving high risks. Experienced companies, operating in different areas, can spread their risks and use the large profits made in a few cases to counterbalance the losses elsewhere. The large sums of investment capital which would be required for oil development in Brazil are not available from private Brazilian sources.

As regards the possibility of financing oil development by other than private sources, it is the policy of the United States Government not to make public funds available for economic development projects when private funds are available for them on reasonable terms. In view of the fact that foreign companies are understood to be ready to invest in Brazilian oil development if satisfactory legislation is passed, United States public funds would thus not be available for loans to aid oil development in Brazil under present circumstances.

Government intervention in actual operation has generally proved unsuccessful. In Mexico, production under Government control and administration has stood still and has made no progress toward meeting Mexico's own oil needs and her great need for foreign exchange. Development by a Government corporation in Argentina has not met expectations. On the other hand, in Venezuela, where private foreign capital has had a relatively free hand, subject only to general regulation, there has been marked success in oil development. There, the Government and country have benefited greatly from royalties and taxation in contrast to the situation in Mexico where maintaining oil production has been a net drain on Government resources.

The major companies engage in all phases of the oil industry, from exploration through production to refining, transportation, distribution and marketing. It is improbable that they would be prepared to enter into operations in Brazil on a restricted basis enabling them to engage in only some of these activities. The minimum conditions attractive to foreign capital would include complete management control subject only to general Government regulation and opportunity for reasonable profit commensurate with the risks involved.

The initiation of large-scale petroleum development in Brazil could



be expected to bring the following important advantages to that country:

1. Probable self-sufficiency in its petroleum requirements, including adequate supplies of fuel for the expansion of transportation facilities.

2. Lower prices to local consumers than are possible for similar imported products.

3. Reduction or elimination of the drain on foreign exchange now being used to pay for imports.

4. Possible creation of a petroleum export trade that would furnish a constant and substantial source of foreign exchange for the country's requirements.

5. Increased government revenues from petroleum royalties and licenses and additional taxation revenue arising from the increase of commercial and industrial activity that would follow large-scale petroleum development.

6. Expansion of Brazilian industry both in lines directly related to petroleum development and in those able to expand as a result of their ability to obtain adequate and cheaper supplies of petroleum products.

7. Increased employment and an opportunity for qualified Brazilian technicians to obtain practical knowledge and experience in the fields of petroleum production, refining and marketing.

8. Development of inland waterways and increased highway construction necessary in large-scale oil development.

9. Additional health, sanitation and housing activities in rural areas where oil development is carried on.

10. Encouragement to private foreign capital to participate in other phases of Brazil's economic development.

11. Greater military security since Brazil's armed forces would have a domestic source of supply for fuel.

811.503132/3-3048 : Telegram

*The Chargé in Brazil (Key) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, March 30, 1948—6 p. m.

350. Following is full text of memorandum handed President Dutra and Secretary General FonOff (Deptel 235, March 23 and Embtel 337, March 26<sup>1</sup>).

A cursory review of the draft petroleum law suggests the following brief, and necessarily incomplete, observations:

(1) The limitations imposed on foreign capital participation in enterprises devoted to the refining of petroleum and the specialized transportation thereof (Article 6) could only serve to discourage the entry of such capital into Brazil for investment in these activities.

(2) Concession titles are not guaranteed to their grantees for their full terms, conditioned only upon grantees compliance with definite

<sup>1</sup> Neither printed.

obligations. On the contrary, concessionaires may be divested of their rights at any time: to wit, Articles 7 and 15.

(3) There is no assurance of guaranteed continuity between the several phases of development conditioned only upon compliance with all defined legal obligations. For example, compliance with the obligations for exploration activities does not automatically guarantee the right to enter into the next phase, to wit, exploitation activities. Likewise, compliance with all legal obligations relative to exploitation activities does not give the concessionaire the right to enter into refining and transportation activities (see Articles 54, 60 and 66).

(4) The essential right to export once the demands of the internal market are met, is not assured but is subject to quota and is greatly circumscribed by numerous and vague conditions viz Articles 68, 69, 70 and 71.

(5) Therefore it is proposed requesting the companies to submit call for information that may not always be obtainable at certain stages of development and are of a nature that would tend to retard, if not completely interrupt, continuous and orderly development.

(6) The calculation of royalties, values of concessions, damages, et cetera are not set out clearly in the draft law. Specification of these matters in detail would avoid confusion and minimize misunderstandings.

(7) The proposed limitations on the size of holdings in a country as large as Brazil would result in small, restricted operations of a high unit cost. Considerably enlarged concession areas are essential to the achievement of development on a reasonable cost basis.

(8) The wide discretionary powers to be invested in the national petroleum council would place, for all practical purposes, private management in a subordinate position vis-à-vis the council and would seriously detract from the efficiency of such management.

(9) The constitutionality of several important provisions of the proposed oil law would appear to be open to question, for instance, Articles 2, 6 and 58. Furthermore, there are many other provisions that are so vague and indefinite in their scope and application that it is doubtful if any private company would feel justified in making sizeable investments until they are clarified and reduced to specific terms.

(10) Many provisions of the law would appear to seriously militate against the undertaking of petroleum operations by small independent operators.

It would be most helpful if Department could forward soonest comment on specific provisions draft petroleum law as President Dutra has expressed interest in receiving any additional information that it may be possible to furnish.

Embassy appreciates merits Curtis Hoover<sup>2</sup> recommendations but has refrained from suggesting that they be followed in view opposition they have encountered in certain official and Congressional circles.

KEY

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<sup>2</sup> The private firm of Hoover and Curtice.

S11.503132/3-3048 : Telegram

*The Acting Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, April 21, 1948—4 p. m.

309. Excepting as indicated below proposed law appears satisfactory and workable. Dept advises with respect Emb memo handed President Dutra and Secretary General FonOff (urtel 350, Mar 30) due care should be exercised in making recommendations concerning responsibility of NPC. Believe govt through NPC should have access to all info on operations and reasonable supervision oil co activities. On number of points now indefinite in law Dept believes they can be more satisfactorily resolved in regulations written under law and in concession contracts. Dept has in mind that such matters as conditions under which exploration concessions are to be converted to exploitation concessions, concession rights to enter refining and transportation activities, right to export, calculation of royalties, and value of concession could appropriately be specified in regulations and contracts. Would seem desirable have present flexibility in law rather than have rigid law which would require modification to meet all unforeseen operating conditions and problems.

Believe major point Emb should emphasize in further discussions concerning law is obstacle requirement 60 per cent Braz ownership refineries and pipelines will be to oil development. Emb should work toward elimination this limitation. Provision that local requirements be satisfied before oil exported would seem afford adequate protection Braz economy and not understood what is added in Braz public interest by requirement 60 per cent Braz ownership. Also, always understood whether law so states or not govt has first call on country's petroleum resources and facilities event emergency. In any case sovereignty of nation ensures this with or without specific provisions laws or regulations.

Although limitation on area held by any one co is advisable some experience may be reqd to learn size area reqd for effective and practicable operations. If stated limitations prove to be too low then law would have to be changed which procedure might make law ineffective for some considerable time at least. Preferably law might indicate area any one co may hold at any one time should be limited but believe specific limitations on amt held should be removed from law and placed in regulations which can be adjusted to meet circumstances.

Art 55, para I, use word "greater" statement "who has available greater technical, etc" makes connotation inadvisable and should be changed to "sufficient" or some similar word.

Dept wishes emphasize basic law should be concerned primarily with



statement general principles to provide sufficient flexibility, specific details and limitations to be included in regulations and contractual agreements. If Braz will relax ownership and area restrictions Dept. believes present draft law would appear to be workable.

LOVETT

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832.6363/8-1948

*Memorandum by Mr. I. G. Harmon, Petroleum Division, to the Chief of That Division (Eakens)*

[WASHINGTON,] August 19, 1948.

In conformity with your request, I am submitting herein my comments on the present status of a petroleum law for Brazil.

I have read the monthly and annual reports<sup>1</sup> prepared by Mr. Anderson, Second Secretary of the Embassy in Rio de Janeiro. Very little of definite nature pertaining to the subject has occurred since my departure from Brazil on November 15, 1947, and Mr. Anderson's reports seem to cover the subject of petroleum quite fully. So far as I can determine, in only one instance has the Embassy in Rio taken any official action with reference to a petroleum law, and in that instance certain changes were suggested which it was hoped might make the law acceptable to American oil companies, if adopted.

The law drafted by the Odilon Braga Committee was finally submitted to Congress by President Dutra. The law has been in Committee for several months with little chance that the present Congress will take any action on it.

Controversy with reference to the law exists throughout Brazil. Certain interests wish to make the petroleum industry in Brazil a government monopoly, other interests wish to open it to private capital with Brazilian capital in control, yet permitting foreign capital to participate with a minority interest, and a few people openly advocate opening up the country to foreign capital, with certain safeguards. So far advocates of the last course are greatly in the minority.

It is well known that the spirit of nationalism is very strong in Brazil. It was fostered by Vargas throughout his regime as President. The Army is steeped in nationalism. A few top generals control the destiny of the country; not only in petroleum, but in practically all matters. . . . The industrialists do not want United States capital to dominate and control petroleum development or refining in Brazil, knowing that American capital once it comes into the country on a large scale will raise wages and living standards, and so force the Brazilian industry to meet the standards created by American capital.

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<sup>1</sup> Not printed.

The Communists created and led the attack against American capital in the development of Brazil. Through an extremely able and clever use of the press and by influencing the young people in schools and colleges they have made the opposition to foreign capital appear to be of a spontaneous origin, rather than of Communistic origin. They developed the slogan "Brazilian oil for Brazilians" which appears all over Brazil in the press and on posters.

The persons both in the Army and in Government who control the destiny of the country are not ignorant of the facts regarding petroleum. The solution of the problem does not lie in further education on the matter, and patriotism or interest in the welfare of their country is not a governing factor in the matter. In my opinion the attitude of the controlling generals and the most influential members of the Government and Congress is based on self-interest rather than national interest.

I see very little chance of the enactment of a petroleum law which will be acceptable to foreign capital based on sound economics or national welfare.

Brazil needs financial help from the United States for some very sound and worthy purposes. They want money for some other purposes not so sound or worthy, but which appeal to their national pride.

The United States needs certain products produced in Brazil which will be of extreme importance in the event of another war. I refer to the development of petroleum in Brazil and to the development of the vast iron ore deposits. I also refer to monazite sands, needed in the atom bomb program, to industrial diamonds, quartz crystal, vegetable oils, etc.

The only hope I see of a satisfactory petroleum law in the near future is to negotiate a trade with Brazil in which we help Brazil in the projects she needs and wants and Brazil in turn enacts a satisfactory petroleum law and agrees to the development of their iron ore, and other needed products under terms and conditions satisfactory to the United States.

It is my belief that a trade, fair and reasonable to both countries, can be worked out and I further think that with the proper approach, the plan would not in the least degree offend Brazil. It is just as right and as practical for two countries to make such a trade as it is for two individuals to do so.

The Economic Mission, headed by Mr. Abbink,<sup>2</sup> is soon going to Brazil. Working with the Brazilians this Mission should acquire the information on which a trade can be based. If the Joint Economic Committee produces a report of such nature as to warrant cooperation

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<sup>2</sup> For documentation on the Abbink Mission, see pp. 364 ff.

between the countries, then it is my belief that the proper authorities should be instructed to negotiate the trade.

In the meantime there is very little that the Department can do in reference to a petroleum law. If the plan here suggested meets with the approval of the Department, it might be well to officially request Brazil to delay enactment of a law until after the economic study of the Joint Committee is completed.

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832.6363/10-748

*Memorandum by Mr. Harold M. Midkiff, Division of Brazilian Affairs*

[WASHINGTON,] October 7, 1948.

President Dutra signed a resolution which orders the installation in Brazil of large petroleum refineries utilizing funds which Brazil owns in France amounting to approximately 4 billion francs, representing \$22,000,000. He ordered: (1) the acquisition in France of a large refinery of 45,000 barrels daily capacity to be installed at Belem; (2) an increase in the capacity of the National Petroleum Council's refinery now being constructed at Bahia from 2,500 to 5,000 barrels per day, presumably with funds frozen in France also; (3) the purchase of 50 locomotives in France; (4) the opening of necessary credits for acquisition in Czechoslovakia, where Brazil has \$13,000,000 of frozen funds, of a refinery with a capacity of 20,000 barrels per day to be constructed at São Paulo; and (5) the opening of direct or indirect credits of \$8,000,000 to \$10,000,000 for the acquisition of a refinery of 10,000 barrels per day to be installed at Rio de Janeiro.

Source: Brazilian Embassy Radio Bulletin of 10-4-48.

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#### THE JOINT BRAZIL-UNITED STATES TECHNICAL COMMISSION

832.50 JTC/8-2448

*The Secretary of State to the United States Co-Chairman of the Joint Brazil-United States Technical Commission (Abbink)*

WASHINGTON, August 24, 1948.

SIR: With reference to your appointment as Chairman of the United States Section and Co-Chairman of the Joint Brazil-United States Technical Commission which will begin its sessions within a short time at Rio de Janeiro, I shall greatly appreciate your communicating to the other members and staff of the United States Section, the position to be upheld during the work of the Commission.

This Commission has been established pursuant to conversations



between President Truman and President Dutra of Brazil.<sup>1</sup> It is understood that the work of the Commission will be conducted within the scope of the approved terms of reference which read as follows:

"The Joint Brazil-United States Technical Commission should endeavor to analyze the factors in Brazil which are tending to promote or to retard the economic development of Brazil. This might involve a broad appraisal of the manner, directions, and rates of development of the Brazilian economy, looking toward the most effective and balanced utilization of Brazilian resources. The Commission should give particular attention to the capacity of Brazil for economic expansion through the maximum use of its internal resources. The Commission shall not undertake to appraise the merits of specific projects or to evaluate the desirability of obtaining foreign financing. The Commission, however, should consider measures designed to encourage the flow of private capital to Brazil and where appropriate, may make broad recommendations relative to measures which might facilitate economic development in Brazil.

"The Commission should direct its attention toward an analysis of (1) Brazil's natural and capital resources, (2) the supply of labor, particularly skilled labor, (3) problems of fiscal and banking fields, (4) problems of domestic and international trade, and (5) the position of Brazil in the world economy."

Since this is an official Governmental Mission, the United States Section must of course act as a unit and present a solid front, expressing the views of the Government of the United States on issues before the Commission, rather than views of individuals or of organizations or groups with which they may be affiliated. As Chairman, you shall be responsible for such adherence. Any divergent views among the United States Section members should be resolved in private meetings of the Section, in order that embarrassing differences of opinion may not appear in open discussion. In the event of division among the members on such matters, your decision shall be final and binding on the United States Section.

However, this is not intended to bar the expression of personal views provided such views do not run counter to these instructions or to United States policy. In cases where there are no specific instructions or Section policy, personal views may be expressed, but they should be clearly qualified as personal.

You will appreciate, I am sure, that the members of the United States Section are not authorized to offer any written or oral statement which might be construed as committing this Government to a

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<sup>1</sup> These conversations presumably took place in Brazil when President Truman was attending the closing meeting of the Inter-American Conference for the Maintenance of Continental Peace and Security in early September 1947.

For previous documentation on the background of the technical commission, see *Foreign Relations*, 1947, vol. VIII, pp. 441 ff.

definite course of action or which might involve an obligation to expend Governmental funds not previously appropriated and allocated.

It is considered unlikely that any matters of a political or diplomatic character will arise at the meetings; however, should such questions be introduced, the United States Section should insist that discussions be limited to the questions under advisement, and, if necessary, appropriate instructions should be sought by telegraph.

You are authorized to delegate to an alternate all authority held by you in the event of your absence or inability to attend sessions of the Commission and in any other instances in which you are unable to exercise the functions of your position.

Upon the completion of the work of the Commission, you are requested to submit to the Secretary of State an official report covering the work of the United States Section with appropriate recommendations. This will be in addition to the joint report to be prepared by the Commission.

You and your colleagues undertake your responsibilities with the assurance of my keen interest and wholehearted support. I have every confidence in the individual ability of all members of the United States Section and in the capacity of the Section as a whole, under your able leadership, to reflect credit on the United States in this important undertaking.

Very truly yours,

For the Secretary of State:

PAUL H. NITZE

*Deputy to the Assistant Secretary  
for Economic Affairs*

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832.50 JTC/10-848: Airgram

*The Ambassador in Brazil (Johnson) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, October 8, 1948.

A-558. During the first month of its presence in Brazil the US Section of the JBUSTC, generally termed the "Abbink Mission", has been the subject of extensive press comment, ranging from mildly favorable in tenor to abusive and malicious attacks on the Mission by extreme left and ultra-nationalist organs.

Styling the head of the Mission as "Viceroy Abbink" and "H. M. Dom João Abbink", the communist dailies have presented the US Delegation as representing the monopolistic interests of Wall Street, an instrument of American imperialism and economic penetration, and have asserted that its presence in Brazil is another move by the United States to hold the country in colonial bondage to facilitate the exploitation of its natural resources. See in this connection Embdesps.

1129, October 4, 1056, September 13, and 1022, August 30.<sup>1</sup> The ultra-nationalist press particularly *O Mundo* has launched violent attacks on Abbink and on the Commission including its Brazilian members. See Embdesp 1041, September 3.<sup>2</sup>

It was obvious from the mendacious and vituperative nature of these attacks, which reached their highest pitch just prior to Mr. Abbink's departure, that the Communists and ultra-nationalists were conducting well organized and financed campaigns to sabotage the work of the Mission and, by using the Mission as a vehicle, to discredit by deliberate misrepresentation of facts, the efforts of the United States to bring about a greater economic stability throughout the world.

The attitude of the moderate press toward the Mission has been vacillating and passive. Consisting in the main of tepid expressions of hope that the work of the Commission will redound to the benefit of Brazil, the publication of remarks by members of JBUSTC, and official release covering the day to day activities of the subcommittees, it has had little appreciable effect in offsetting the Communist and ultra-nationalist propaganda.

The absence thus far of warm and forthright support of the Abbink Mission by the moderate press can be accounted for in part by the reluctance of responsible elements, particularly within the Brazilian Government to become involved and subject to attack from both leftist and rightist groups. There also is the fact that a large sector of public opinion and of the press is still unconvinced that the Mission will succeed in accomplishing what previous missions have failed to achieve, and that is paving the way for a comprehensive development of Brazil's resources. Another reason for the failure of the Mission to receive more active support from the press is that certain organs are closely allied with special interest groups, wherein opinion with respect to the Mission is divided, and not wishing to take sides, these organs have maintained a noncommittal middle of the road attitude.

JOHNSON

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<sup>1</sup> None printed.

<sup>2</sup> Not printed.

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832.50 JTC/11-1848: Telegram

*The Ambassador in Brazil (Johnson) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, November 18, 1948—6 p. m.

1201. Mr. Abbink requests message in following paragraph be delivered to Secretary of Treasury. Mr. Abbink asked my opinion about matter. I told him I saw no objection in principle to his suggestion but that I felt it essential from policy point of view that his recom-



mendation be cleared through Secretary of State. If Department has any objections it would be appreciated if they may be telegraphed at earliest convenience.

Following is message for Secretary of Treasury from Mr. Abbink: "Work of Joint Commission is reaching point where it appears Brazilian members may be willing to espouse strong principles looking to maximum self-help plus employment of foreign skills and foreign private capital rather than large government loans in development of Brazil. However, nationalistic thinking persists within Brazilian delegation which is particularly true among those who are entirely unacquainted with the United States and its development. I intend therefore to propose to Brazilian delegation that prior to completion of joint report meetings of joint commission be held in US for period of four to six weeks. My purpose is to give Brazilian members opportunity to witness our free enterprise development first hand and to talk with businessmen, financiers, Government and World Bank officials and thus measure interest in the development of Brazil through adoption sound measures. I feel strongly this approach is desirable to enhance opportunity for a sound, useful report worthy of future implementation and feeling you are in accord with objectives, and as the time appears propitious I suggest it will be helpful if you will personally telegraph to Finance Minister Correa e Castro an invitation to Brazilian members to participate in such meetings in US, the invitation to include the Minister. I have informally discussed the idea with an influential member of Brazilian delegation who strongly endorsing it sounded out Correa e Castro who said he would welcome invitation to send Brazilian members to US. Presumably Brazilian Government will pay expenses Brazilian members though obviously I have not discussed this point.

The discussions could probably start in January in Washington and should be supplemented by visits elsewhere as it is important Brazilian members get comprehensive picture of our industrial, transportation, agricultural, power, mining and petroleum development.

It seems advisable that joint report be finalized in Brazil and if this proves true I would plan to return to Rio for that purpose if so instructed."

JOHNSON

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832.50 JTC/11-1848 : Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, November 24, 1948—4 p. m.

789. In consultation and with concurrence Treasury officials, following comment made re suggestion Abbink outlined Embtel 1201,

Nov 18, concerning proposed visit this country members Braz Delegation Technical Commission, general objective of which appears sound.

There is strong opinion here that if entire Braz Del visits U.S. and then returns Brazil and joint report reflects maximum self-help by Brazil, employment of foreign skills and foreign private capital, interpretation in Brazil may be that Braz Del has been subjected to high pressure during visit and has sold out to Amer interests. It is suspected this line would be taken by extreme Rightist as well as Communist press.

Also thought visiting Braz Del, in seeing Amer industry, might project over-ambitious plans for development, possibly with foreign aid, which might not be practical or economic for Brazil for some years. View here is also that lengthy formal visit might unduly delay report and return U.S. personnel who are urgently needed in agencies here.

Of Braz Del, Bouças and Bulhões well acquainted this country. Abbink objective might be accomplished in less pointed manner if Secy Snyder were to invite FinMin Correa e Castro to repay informal Snyder visit to Brazil. Minister might bring with him Del members Anapio Gomes, Alves Bastos, and Bittencourt Sampaio. For obvious reasons, expenses such visit should be for account Braz Govt. Abbink could at same time accompany FinMin at request Secy Snyder.

It is desired emphasize Treas and State have full confidence discretion and judgment Abbink. However, seems wise suggest these forementioned elements before final decision taken. Secy Snyder fully informed considerations. Further comment from Abbink and Emb requested.

MARSHALL

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832.50 JTC/11-3048: Telegram

*The Ambassador in Brazil (Johnson) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, November 30, 1948—6 p. m.

1224. Comments Deptel 789, November 24 are appreciated. Embassy and Abbink concur in view that desired objectives could be accomplished by invitation to Finance Minister to repay informal Secretary Snyder visit. It is understood that Finance Minister would be receptive to such invitation which should include party to enable him to bring Gomes, Bastos and Sampaio.

Believe it highly desirable that Bouças be in US at time of visit. He plans trip soon on his own account so his movements in US probably could be coordinated with those of visiting officials.

Finance Minister undoubtedly has considered Brazilian reaction

including that of Nationalist and Communist press to visit to US and discounted possibility of unfavorable repercussions.

Visit would be at time when deliberations and preparation of report will have been sufficiently advanced so that hazard of stimulation over ambitious plans as result of visit, a danger that already has been considered, appears remote. It would, moreover, permit thorough examination operations and setup New York Port Authority, Pennsylvania Turnpike Authority and similar organizations and further assist Brazilians to visualize aspect of self-help we have been emphasizing. It is believed most of personnel USDel will have completed work except for final drafting of report by time visit would take place.

If Department and Treasury approve, hope arrangements can be made to extend invitation promptly.<sup>1</sup>

JOHNSON

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<sup>1</sup> In telegram 1254, December 14, 6 p. m., not printed, the acceptance of the invitation to visit the United States by Finance Minister Correa e Castro was indicated (832.50 JTC/12-1448).

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832.50 JTC/12-2248

*The Co-Chairman, Joint Brazil-United States Technical Commission  
(Abbink) to the Assistant Secretary of State (Thorp)*

CONFIDENTIAL

RIO DE JANEIRO, December 22, 1948.

DEAR MR. SECRETARY: On January 7, 1949, the Joint Brazil-United States Technical Commission will have been at work in Brazil for four months. Inasmuch as the original estimate of the time that would be required was set at 4-6 months, a progress report seems in order.

Forecast is always dangerous, but there is good reason to believe the final report will contain the following recommendations, among others:

(a) That a bilateral treaty on the treatment of foreign capital be negotiated.

(b) That a bilateral treaty on taxation be negotiated.

(c) That any foreign funds needed for *industrial* development can be obtained from private sources if the proper atmosphere can be created by means of recommendations (a) and (b).

(d) That no foreign funds be sought for development projects in the public domain (hydroelectric installations, railways, etc.) until the necessary *cruzeiro* expenditures are provided for through new tax legislation or commitments in the current budget.

(e) That "authorities" be set up to deal with such questions as power, fuel and minerals development, to cut across the frustration now occasioned by the intervention of many government departments, each with a different approach and, frequently, diverse objectives.



(f) That Central Bank legislation be enacted immediately, but that the consideration of other banking institutions proposed in the current legislative program (rural credit, export-import, etc.), be postponed.

(g) That the "forced loan" financing feature of the Salte Plan be abandoned as a danger to the whole government securities market.

(h) That the investment of social security and similar funds be rigidly circumscribed so as to prevent their use in real estate and other speculative ventures.

(i) That any legislation furthering development programs in Brazil contain a clause providing that only a *small* percentage of any appropriations made by Federal, State or Municipal governments may be used for "administrative" expense.

The decision by the U.S. members of the Joint Commission in advance of their arrival that they would make no unilateral statements regarding the work of the Joint Commission, but that all statements must be *joint* statements, was agreed to by the Brazilian members at one of the first meetings of the Joint Commission, and has generally been adhered to, though it has not been possible at all times to control the desire for publicity on the part of some members of the Sub-commissions, all of which were appointed by the Brazilian government.

Largely as the result of this policy a hostile press campaign, particularly on the part of newspapers representing extreme viewpoints to the right or left, has died down, and most comments on the work of the Joint Commission have become more objective. It should be noted, however, that neither the Brazilian government nor the public generally had sufficient understanding in advance of the type of work the Joint Commission would undertake. In fact, it was not until late in November that the Brazilian members of the Joint Commission itself began to realize the value to their country of the studies that have been made.

As appreciation of the value to Brazil of the Joint Commission's work grows, so there is increasing insistence at the Cabinet level within the Brazilian government that collaboration in joint studies should not be dropped when the Joint Commission's report is completed, but that some mechanism should be provided through which the recommendations in the report can be reviewed periodically. The final report of the Joint Commission will probably contain such a suggestion, included at the insistence of its Brazilian members. It will be for the governments of both countries to decide whether or not and how to implement such a suggestion.

As the result (referred to above) of the change in attitude toward possible government loans on the part of the Brazilian members of the Joint Commission and of financial officers of the Brazilian government, and to demonstrate to them the methods employed by "authori-

ties" in the United States, the suggestion was made by United States members of the Joint Commission that a study by Brazilian officials of such organizations be made in the United States.

The Finance Minister of Brazil seemed genuinely interested in such a study, and suggested he might head the study group himself. This resulted in our suggestion to the Department that the Finance Minister be invited to repay the visit to Brazil in 1947 of the Honorable John W. Snyder, Secretary of the Treasury of the United States, and that he should take with him such Brazilian members of the Joint Commission as he might designate.

Neither the Finance Minister nor Brazilian members of the Joint Commission can be under any illusion that the visit was suggested by United States members of the Joint Commission as a means of obtaining a loan from the United States government, although it is admitted that public inference to this effect may be difficult to avoid. It is hoped that when the visit takes place the attitude maintained consistently by the United States members of the Joint Brazil-United States Technical Commission will be emphasized—that Brazil's hopes for economic development will be realized precisely to the extent that the Brazilian people put their own house in order, and that whatever foreign investment is required will be forthcoming once Brazilian determination to take the necessary steps in advance has been specifically demonstrated.

When the visit of the Finance Minister was first under consideration, it was hoped that it could be timed for early January so that the work of the Joint Commission might be carried on in the United States to avoid the dispersion of its membership, already referred to in this report.

This timing was not found feasible, however, and the visit now has been tentatively set for April, 1949.

During the next few weeks the United States Co-Chairman expects to visit a number of the States in Brazil to discuss their particular problems with State officials, and to impress upon them individually that development of their areas depends primarily upon local initiative, enterprise and financing. This is the theme that has been emphasized throughout at meetings of the Joint Commission and with Brazilian federal officials. Visits to the various States will represent a difficult schedule, but the idea is enthusiastically endorsed by the Brazilian government, and has the approval of the U.S. Embassy here.

Respectfully submitted,

JOHN ABBINK

S32.50 JTC/12-2448

*The Co-Chairman, Joint Brazil-United States Technical Commission  
(Abblink) to the Acting Secretary of State*

RIO DE JANEIRO, December 24, 1948.

DEAR MR. SECRETARY: The statement by the Department on December 21 of its concern over the instability of political conditions in Latin America encourages me to write you to express some thoughts that have been in my mind for a long time.

At the outset let me emphasize that I am not one of those who believe in a "Marshall Plan for Latin America"; nor in an Inter-American Bank or Development Corporation; and I never have.

What I do believe is that high officials in the Department, and elsewhere within the United States Government, have been so preoccupied with urgent problems in Europe and Asia that an unfortunate impression of neglect of Inter-American relations has gained considerable headway throughout the hemisphere, but particularly in Latin America.

This feeling perhaps is emphasized by the fact that no officer above "office" level in the Department of State recently has provided the leadership in hemisphere relations that Latin America has come to expect, and wants. The contrast in this respect is great when compared with the war years and with our present interest elsewhere as evidenced by ECA operations, and their world-wide attention-getting publicity. As a result, other countries, within and without the hemisphere, have attempted to usurp part of our influence in Latin America, with indifferent but sometimes irritating effects.

I am convinced also that too much emphasis in the Department has been on political affairs in Latin America, too little on the economic side. Political unrest usually is a symptom, rather than a disease in itself. It was inevitable that the post-war period in Latin America would be difficult, but adjustment has been delayed through absence of vision and inspirational leadership on the part of the United States, which has had its damaging effect on our diplomatic missions as well as on the countries to which they are accredited.

An illustration was the frustrated attitude displayed by the economic officers of our various diplomatic missions in Latin America at a meeting held in Rio in November. All of them felt that something must be done; but what? The suggestion that a new approach was possible, and could be made effective, had electrifying results on their morale, though the plan put forward had not been given sufficient



consideration by its proponent. Development of the idea since in conversations with Brazilian officials by United States members of the Joint Brazil-United States Technical Commission has demonstrated its effectiveness.

The program tentatively proposed at the Rio meeting emphasizes the importance of greater self-reliance in carrying out economic development plans by countries in this hemisphere, and points out the possible danger of eventual charges of imperialism by political agitators where there is too much dependence on outside help. This leads to the suggestion that the people of the United States, already heavily taxed, are not likely to look with favor on financial assistance for development in countries whose tax systems impose burdens that are less onerous; but that they would consider sympathetically the demonstrated needs of any neighboring country which resolutely faced and attempted to solve its financial problems through rigid economy and comparable temporary sacrifice of luxury expenditures. Citing Canada, and the relations existing between that country and the United States, has provided an excellent example.

I will not burden you with further details of the plan, excepting to point out that emphasis on self-reliance has an inspirational effect whose political value should not be overlooked. Properly used, it is an antidote to nationalism, whether provoked from the right or the left. That fact is now realized here in Brazil, but it will need frequent reemphasis.

The next few years will be critical in Inter-American relations. If economic conditions are allowed to deteriorate, as they seem to have done recently, we may find ourselves at the end of five years forced to take action which would not only be distasteful, but expensive.

The beginning of a new administration is always the occasion for review and planning. The United States is fortunate at this particular time that no change in top-level personnel is contemplated. But I do hope that a new orientation in our relations with Latin America will be included in over-all planning, and that stress will be on the economic rather than the political approach.

I can report that as the result of our experience in Brazil, a new appraisal of pressing problems has been undertaken here, an appraisal which encourages realistic thinking, and discourages the expectation of large governmental loans from the United States. The concern manifested in the work of the Joint Commission by the diplomatic missions of other Latin American countries accredited to Brazil is indicative of a growing interest in the new approach.

But the start we have made will be nullified unless there can be continued and sympathetic follow-up at high official levels in the United States. I hope the President's forthcoming message to the Congress will

contain a reference that will indicate we have not completely forgotten the problems of Latin America. So little as that will help in the present state of affairs!

With assurances of my highest respect, I remain

Yours truly,

JOHN ABBINK

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THE STATUS OF LOANS ACCORDED BRAZIL BY THE UNITED STATES<sup>1</sup>

832.51/3-548

*Memorandum by the Chief, Division of Brazilian Affairs (Dawson)  
to the Embassy in Brazil*

CONFIDENTIAL

[WASHINGTON,] March 5, 1948.

Mr. Corliss<sup>2</sup> of FN, who was present, informs me that Mr. Otavio Bulhões<sup>3</sup> at a meeting at the Treasury yesterday formally requested, on behalf of the Brazilian Government, an extension from July 15, 1948 to July 15, 1949, of the due date for the repayment of the \$80,000,000 which has been advanced to Brazil by the Treasury from the Stabilization Fund. Mr. Frank Southard of the Treasury presided over the meeting and the Federal Reserve Board as well as the Department was represented.

Three alternative suggestions were made to Mr. Bulhões as possible solutions. The first was that Brazil sell the earmarked gold which guarantees the advance and thus repay it. Mr. Bulhões said his Government would be loath to do this because of the psychological effect in Brazil and pointed out that the gold was desired as reserves in connection with the proposed establishment of a central bank in Brazil.

The second suggestion was that the Brazilian Government approach the Federal Reserve Bank of New York to take over the \$80,000,000 credit. To this Mr. Bulhões replied that he understood that Federal Reserve practice was to advance credits only for short periods limited to three months. It was then further suggested to him that he might endeavor to get special treatment in this particular case on the basis of the circumstances. Mr. Bulhões had stated that the Brazilian Government was making definite plans for repayment by the expiration of the year covered by his request.

The third suggestion was that a credit might be arranged with private banking sources in view of the fact that the amount was fully covered by earmarked gold. Mr. Bulhões' rejoinder to this was that it

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<sup>1</sup> For documentation on financial assistance provided by the United States in 1947 for Brazilian economic development, see *Foreign Relations*, 1947, vol. VIII, pp. 441 ff.

<sup>2</sup> James C. Corliss, Chief of the Division of Financial Affairs.

<sup>3</sup> Representative of the Brazilian Ministry of Finance.

would cost his Government more than an extension of the credit by the Treasury since interest rates would be higher. Mr. Southard pointed out that, while this was doubtless true, the Treasury could hardly place itself in the position of competing with private banking when the latter was in a position to handle specific business.

Mr. Bulhões was told that the Stabilization Fund was at such a low level that compliance with his request would be most difficult. However, the Treasury would consider the matter further and let him know its decision at a later date. It was mentioned that Secretary Snyder<sup>4</sup> was out of town and that he would be consulted.

In the conversations between the Treasury, Federal Reserve and Department representatives before and after the meeting with Mr. Bulhões it was pointed out that the Stabilization Fund was in fact almost exhausted and that the Treasury had made firm commitments to various European countries which would more than absorb the present balance. Thus, if the Brazilian request were to be met, sale of gold by the Treasury would be necessary.

Strong opposition to meeting the Brazilian desires was expressed by both the Treasury and Federal Reserve representatives. In addition to the other reasons, touched on above, this rested largely on Brazil's record in regard to the International Monetary Fund and Bank. If Brazil were to declare its par rate and make its contributions, it could properly call on this source for aid. In effect, it was using the Treasury to play off against the Bank and Fund. In this connection, Mr. Bulhões had remarked that the Brazilian Government had at last entered into conversations with the Fund but these do not appear to have reached any conclusion as yet.

It was made clear by the Treasury representatives that there was little chance of approval by the Treasury of the Brazilian request unless the Department were prepared to support it strongly on political grounds. It occurs to me that a path out of the dilemma might be found by in some way, although probably not formally, tying full Brazilian participation in the International Fund and Bank in with extension of the credit and letting them have the latter if they complete the former. There are four months available to work out something along these lines.

After all, the Treasury would run no risk in extending the credit and failure to help the Brazilians in this matter would be taken by them as the culmination of what they think is undue harshness on our part in dealing with their financial needs. The Brazilians are completely aware of the fact that the Treasury has made stabilization advances to others without collateral and can be counted on to be most unhappy

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<sup>4</sup> John W. Snyder, Secretary of the Treasury.



over our unwillingness to give them a helping hand when we have full security.

Another possibility which might be explored would be getting a group of banks doing business in Brazil, such as the National City Bank, the First National of Boston, Chase and the Guaranty Trust, to take over the loan at a low interest rate. The present interest on the stabilization credit is  $13\frac{1}{4}\%$ . I do not imagine the Brazilians care much where they get their dollars as long as they do not have to pay too much for the privilege of using them. The loan would be without risk for the private banks with the maintenance of the present gold collateral and they could certainly get kudos in Brazil which would redound to their and private American business' benefit if they could be generous on the interest rate.

Still another possibility might be for the Brazilians to arrange with the Federal Reserve Bank of New York for a three-month credit starting July 15, 1948, even if they cannot get it for the full year they desire. This would at least give them seven months from now to decide on what they are going to do about the International Fund and the chances are that the Federal Reserve would extend the credit for at least one additional ninety-day period. Bulhões should, it seems to me, be encouraged to approach the Federal Reserve and private bankers as possible alternative strings to his bow instead of just counting on the Treasury.

Could I have your reactions on this? The Treasury will probably want to reach a decision on the Brazilian request some time next week. In view of your scheduled departure for Rio de Janeiro on March 10, I think any action should be taken prior to that time so as to get the benefit of your personal approach.

ALLAN DAWSON

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811.516 Export-Import Bank/3-848

*Memorandum by the Director, Office of American Republic Affairs  
(Daniels) to the Assistant Secretary of State for Economic Affairs  
(Thorp)*

CONFIDENTIAL

[WASHINGTON,] March 8, 1948.

I understand that the Export-Import Bank's Board for several months has held up action on all loans involving Brazil pending satisfactory conclusion of the new Vale do Rio Doce financing. I am informed that this policy has been followed not only in the case of loans in which the Brazilian Government or one of its components is interested, either directly or as a guarantor, but in that of loans in which

the obligor would be a private entity, such as that covered by the application of Laminação Nacional de Metais of São Paulo, Brazil.

Unless there are overriding considerations to the contrary, of which ARA is not aware, it feels that the extension of the ban on Brazilian credits to private loans unduly penalizes United States exporters and private United States and Brazilian enterprises functioning in Brazil which have not been concerned with the difficulties over the Vale do Rio Doce financing and which might otherwise qualify for assistance from the Export-Import Bank. ARA is of the opinion that such private loan applications might properly be dealt with purely on their own merits. This would appear to be particularly true in the case of the Laminação Nacional de Metais application which is understood to have been placed before the Board with a favorable recommendation from its staff.

The Brazilian Congress has recently authorized an increase in the capital of the Cia. Vale do Rio Doce to be contributed by the Brazilian Government and a guarantee by the latter of the new Export-Import Bank loan to the company and thus opened the way for settlement of the Vale do Rio Doce matter.<sup>1</sup> This would seem to give an opportunity for reconsideration of the Board's loan policy regarding Brazil and to increase the advisability of reaching a prompt decision on pending private loan applications involving Brazil.

It would be appreciated if, provided you are in accord with the thoughts expressed in this memorandum, you could raise the question at a Board meeting in an endeavor to have the Board agree to consider such applications.

PAUL C. DANIELS

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<sup>1</sup> Telegram 903, August 13, 1948, from the Embassy, not printed, indicates the signing of an agreement by which the Export-Import Bank was to advance seven and one-half million dollars (832.51/8-1348).

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832.51/3-2448

*Memorandum of Telephone Conversations, by the Assistant Chief of the Division of Brazilian Affairs (Clark) With the Ambassador in Brazil (Pawley)*

SECRET

[WASHINGTON,] March 24, 1948.

On Tuesday, March 23, I telephoned the Ambassador in Rio de Janeiro and discussed with him, among other matters, the problem of the renewal of the Brazilian Stabilization Agreement with the U.S. Treasury. I advised him that arrangements apparently had progressed in a satisfactory manner between the Brazilian authorities and the Federal Reserve Bank in New York City and that the Federal Reserve

Bank was willing to take over the \$80,000,000 from the U.S. Treasury. Presumably this credit, which is backed by Brazilian gold, would be repayable in the amount of \$40,000,000 in nine months and the balance of \$40,000,000 at the conclusion of the annual period.

Reports have been received that the Federal Reserve Bank in New York City on March 12 sent a telegram to the Bank of Brazil in Rio de Janeiro outlining its tentative acceptance of the Brazilian credit and requesting certain information. No reply has so far been received to this telegram from the Bank of Brazil and I mentioned this to the Ambassador in the hope that he or some one else in the Embassy might be able to discuss this subject with possibly Vieira Machado in the Bank of Brazil and encourage the Bank of Brazil to reply to the Federal Reserve Bank in New York without further delay. In the course of our conversation, the Ambassador mentioned that shortly before his departure from Washington he had discussed this subject with the President and the President had indicated his desire that the Treasury continue its arrangement for Brazil rather than have the Brazilians go to the Federal Reserve Bank in New York City. The Ambassador suggested, therefore, that before any mention was made of the Federal Reserve Bank telegram to the Bank of Brazil authorities it would be best to query the appropriate authorities in the U.S. Treasury Department as to whether or not a final definite decision had been taken on this matter.

I subsequently talked with both Mr. Wiggins<sup>1</sup> and Mr. Southard of the Treasury Department. Both stated that it had been decided that it would be preferable for the Brazilians to deal with the Federal Reserve Bank in New York City. Mr. Southard stated that he personally had handled the matter at the request of Secretary Snyder and that the Secretary had assured him that he was quite confident that the President would be satisfied if the arrangement with the Federal Reserve Bank in New York gave the Brazilians the same facilities as those afforded heretofore by the Treasury Department.

Mr. Southard explained that, while the Treasury has no desire to close the door definitely on the Brazilian request for a renewal of the Agreement, the Treasury is desirous of mobilizing those funds which are available in anticipation of a drain from European sources. Mr. Southard stated that he had the assurances of the Federal Reserve Bank in New York City that an advantageous deal could be worked out with the Brazilians and that the cost, in actual fact, would be less than if the Agreement was to be renewed by the Treasury. Mr. Southard also added a confidential mention of the fact that the Treasury finds itself in a rather anomalous position with Brazil, that is, carrying

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<sup>1</sup> Under Secretary of the Treasury.



such a credit while at the same time Brazil has made no attempt whatsoever to participate in the International Fund. Mr. Southard implied that Brazil's position was inconsistent, to say the least, and that while no one wished to force Brazil into joining the Fund, he did feel that the Brazilians could maintain independence of action much better if the Stabilization Agreement was transferred to the Federal Reserve Bank in New York City on a more or less strictly commercial basis.

On Wednesday, March 24, at approximately 2:15 p. m., I again telephoned the Ambassador at Rio de Janeiro and informed him of the results of my conversations with Mr. Wiggins and Mr. Southard of the Treasury Department. He seemed perfectly satisfied and stated that, after all, it was a decision which would have to be made by the Treasury. At my request, he indicated that some one from the Embassy would immediately get in touch with the people at the Bank of Brazil to attempt to see that a reply to the March 12 telegram from the Federal Reserve Bank in New York City is despatched without further delay.

DUWAYNE G. CLARK

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832.51/3-3048

*Memorandum by Mr. Richard F. O'Toole of the Division of Brazilian Affairs*

CONFIDENTIAL

[WASHINGTON,] March 30, 1948.

On Friday, March 26, I was asked to attend a 4:00 p. m. meeting in Mr. Ness'<sup>1</sup> (OFD) office to discuss Brazilian financial problems. In addition to Mr. Ness, the following were present: Messrs Stenger, Atterbury, Bauer (ED), Corliss (FN), Shenefield (EP),<sup>2</sup> and Leslie Wheeler (formerly of Agriculture, recently assigned to Mexico City as a career officer).

The purpose of the meeting appeared to be a discussion of pending Brazilian financial problems, but I was not asked to make any decisions for BR. The topics discussed are as follows:

1. *Lend-lease Settlement.*

Mr. Shenefield reviewed this case, mentioning that our proposals were awaiting approval of the Foreign Office through the Brazilian Embassy.

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<sup>1</sup> Norman T. Ness, Director, Office of Financial and Development Policy.

<sup>2</sup> J. J. Stenger, Phil R. Atterbury, and Walter Bauer, Division of Investment and Economic Development, and Hale T. Shenefield, Chief, Division of Lend Lease and Surplus War Property.

## 2. *Surplus Property Settlement.*

Mr. Ness commented on this matter, describing the technical difficulties regarding acceptance of *cruzeiros* for the July 1, 1947 payment. As he seemed to stress the fact that this payment was in default, I interjected a statement that, while this was technically true, the Brazilians had requested authorization to make payment in *cruzeiros* at the time the payment had fallen due and that this request had been transmitted to the Department which had failed to decide the matter during the intervening nine months. Mr. Ness thereupon agreed that this was the case.

## 3. *Stabilization Loan.*

Mr. Ness discussed this item and clearly indicated that the Treasury's action in requesting the Brazilians to "bail out" this loan was due to the failure of the latter to join the International Monetary Fund. He added that, as a result, the Treasury was placed in a position of making a loan for currency stabilization purposes when, at the same time, this government is committed to support the Monetary Fund. He also commented that Brazil is really not entitled to receive World Bank loans unless it assumes membership in the Monetary Fund.

## 4. *Brazilian Traction \$90,000,000 Loan.*

Mr. Ness commented that it is feared that in the event that Congress appropriates an additional \$500,000,000 for Export Import Bank loans for Latin America, the Brazilians might decide to transfer this loan application from the World Bank to the Export Import Bank for the purpose of obtaining a lower interest rate. I said that I did not believe this at all likely and that I felt certain that Mr. Borden, whose company is the applicant, would not countenance any such step.

## 5. *Brazilian Balance of Payments.*

Mr. Corliss (FN) commented at some length on this matter and said that figures and other information indicated that, as of January 1948, Brazil had a deficit of about \$60,000,000.

## 6. *Export Import Bank Loans to Brazil and Present Policy of Withholding Action on Pending Applications.*

Mr. Stenger (ED) went over the outstanding Brazilian loans and stated that there has as yet been no change in the policy mentioned but that it has been made clear to officials of Export Import Bank that the responsibility is theirs and that Mr. Martin<sup>3</sup> (President of the Bank) who is now in Bogotá is undoubtedly going to be on the spot.

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<sup>3</sup> William McChesney Martin, President and Chairman of the Board, Export-Import Bank.

These officials said that they and Mr. Martin recognized this fact and that Mr. Martin was prepared to take the responsibility.

#### 7. *The Technical Mission.*<sup>4</sup>

Mr. Ness told me that he had been in touch that morning with Secretary Snyder and that three names were now being considered for the prospective Chairmanship of the Mission.

At the close of the meeting Mr. Ness asked those of his staff who were present whether they thought this type of meeting was of any value. As the replies were all in the affirmative he said that they would hold similar meetings every Friday, to discuss financial matters related to the various ARA countries.

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<sup>4</sup>For documentation, see pp. 364 ff.

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811.516 Export-Import Bank/4-148

*Memorandum by Mr. J. J. Stenger of the Division of Investment and Economic Development to the Director of the Office of Financial and Development Policy (Ness)*

[WASHINGTON,] April 1, 1948.

Subject: Agenda for Meeting of Board of Directors Eximbank  
April 2, 1948.

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11. *Brazil—Laminação Nacional de Metais.* This application was last considered in December, 1947, and at that time action was deferred awaiting the outcome of the Rio Doce negotiations. This was done in spite of the fact that the Department recommended that no projects for Brazil should be held up because of the Rio Doce problem. The application was again discussed about two weeks ago and the Board agreed that Mr. West<sup>1</sup> should be consulted regarding the possible effect that the approval of this project would have on his negotiations with the Brazilians. Mr. West agreed that the approval of this credit would not interfere with his work, and he also raised no objections to the possible approval of other credits to private companies.

To refresh your memory—Reynolds & Company of New York, acting on behalf of Laminação Nacional de Metais of São Paulo, has requested a credit of \$4,869,923 to finance the purchase of U.S. equipment and materials required by Laminação Nacional de Metais for the expansion of its existing facility for the manufacture of non-ferrous metal products. The application covers two credits; (1) \$3,569,923 for the purchase of equipment and materials required for plant

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<sup>1</sup>Robert K. West, representative of the Export-Import Bank.



construction and equipment and (2) \$1,300,000 for the purchase of U.S. raw materials to be processed in the plant. The latter to be in the form of a revolving credit.

The total cost of the expansion program is estimated at about \$5.5 million, of which \$4,358,000 represents the cost of U.S. equipment and materials. Virtually all contracts for the equipment and materials have been placed and an advance payment of \$788,000 has already been made to U.S. supplies. The credit requested for the purchase of capital goods is, therefore, equal only to the residual payments to be made or \$3,570,000.

The conclusions reached by the staff of the Bank when the application was first considered were: (1) expansion of non-ferrous metal manufacturing in Brazil appears to be a sound line of development for Brazilian economy and should result in substantial foreign exchange savings equivalent to at least \$2.5 million per year; (2) the prospective earnings of the company after completion of the proposed expansion program should be adequate to permit repayment of the credit within a period of 7 years; (3) the guarantee of the Banco do Estado of São Paulo, which was offered by the applicant, does not appear to be entirely satisfactory, but it should considerably reinforce the obligations of the company; (4) extension of the credit would be a material assistance to a number of U.S. manufacturers; and (5) the request for a revolving credit of \$1.3 million for the purchase of raw materials should not be approved because it appears that the company should be able to finance such imports without recourse to the Eximbank.

Since last December certain developments have occurred which affected adversely the worth of the guarantee of the Banco do Estado. The staff, therefore, has amended the recommendation previously made. It now recommends that the Board approve a credit of \$3,570,000 for the purposes indicated above provided that the applicants can obtain the unconditional guarantee of the Banco do Brasil.

Recommendation: The Department strongly supports the recommendation of the staff of the Bank.

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832.24/2-1248

*The Acting Secretary of State to the Brazilian Ambassador (Martins)*

CONFIDENTIAL

WASHINGTON, April 15, 1948.

EXCELLENCY: I have the honor to refer to Your Excellency's note No. 29/524.2(22), dated February 12, 1948,<sup>1</sup> concerning the terms of acceptance by the Government of Brazil of a proposal made by my

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<sup>1</sup> Not printed.

Government on March 14, 1947 <sup>2</sup> for the reaching of a final settlement of those lend-lease accounts arising out of charges for defense aid supplied to the Government of Brazil within the terms of the Lend-Lease Agreement signed by representatives of our respective Governments on March 3, 1942 <sup>3</sup> under the authority of, and subject to the terms and conditions of the Act of March 11, 1941,<sup>4</sup> as amended, and to any acts supplemental thereto.

Your Excellency states that your Government has instructed you to propose, formally, to my Government the final settlement of the obligations assumed by the Government of Brazil under the terms of the Agreement of March 3, 1942. As a means to this end Your Excellency proposes a series of conditions under which your Government is prepared to effect a settlement in full by the payment of an amount of \$70,000,000 of which, a payment of \$35,000,000 already having been made, the amount of \$35,000,000 represents the balance due. It is proposed that this amount shall be paid in seven annual installments of \$5,000,000 each but with the privilege of effecting, in advance, at any time, any or all of these payments which shall begin with the payment of July 1, 1948.

On behalf of the Government of the United States of America the Department of State confirms that the terms and conditions of the proposal made by my Government to the Government of Brazil on March 14, 1947 were and are as follows:

1. The total amount of the lend-lease account for defense aid to Brazil, under the stipulations of the Lend-Lease Agreement of March 3, 1942 shall be deemed to be exactly two hundred million dollars (\$200,000,000), United States currency.

2. Within the amount of \$200,000,000. there shall be included

- (a) all charges and/or credits which have been reported and applied to the Brazilian lend-lease account under the terms of the Agreement, as well as any pending or future charges and/or credits which may be applicable to that account:

- (b) all authorized charges arising out of the so-called "pipeline agreement" of June 28, 1946;<sup>5</sup>

- (c) all authorized charges under the authority of requisition B-50,780 covering the ocean transportation costs from Italy to Brazil of certain component elements of the Brazilian Expeditionary Force (ground and air) and their impedimenta;

- (d) all approved charges, accrued within the purview of a

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<sup>2</sup> See below.

<sup>3</sup> *Foreign Relations*, 1942, vol. v, pp. 815-818.

<sup>4</sup> 55 Stat., 31.

<sup>5</sup> For text, see Department of State, *Treaties and Other International Acts* Series No. 1537.

relevant authority, for land and/or air transportation of Brazilian officials;

(e) certain authorized charges for the cost of hospitalization and of medical services extended by the Government of the United States to Brazilian service personnel; and

(f) all other outstanding charges, including those not yet reported, or charges still to be classified for billing, any of which would properly fall within a category of lend-lease eligibility and conform to accepted program criteria for Brazil.

3. The total reimbursement responsibility of the Government of Brazil shall be at the rate of the repayment percentage stipulated in the Agreement,—viz: thirty-five per cent (35%) of the value of the aid furnished, or the sum of seventy million dollars (\$70,000,000), United States currency. Inasmuch as the Government of Brazil has already made payment of the sum of thirty-five million dollars (\$35,000,000), United States currency, the balance now due, except for conditions as otherwise provided for in this settlement arrangement, is exactly thirty-five million dollars (\$35,000,000), United States currency.

4. Outstanding unsettled accounts arising out of special procurement operations effected through lend-lease channels and for which the Government of Brazil has already agreed to pay the full value thereof ("cash reimbursement" and/or "cash reimbursable" transactions) shall, in no manner, be affected by this settlement arrangement but shall be treated separately and apart herefrom in order that they may be paid in full.

5. With respect to defense aid extended to the Government of Brazil in the form of vessels (including ships, boats, barges or floating drydocks) and leased under Charter Party Agreements within the lend-lease program all such vessels shall be returned to the United States not later than the termination of the present wars. Final determination of disposition of these vessels will be the subject of special consideration and shall not be made a part of the conditions of this settlement arrangement.

6. Any and all charges for materials, equipment, services and any other eligible defense aid furnished to the Government of Brazil for the use of the Brazilian Expeditionary Force (ground and air) shall be waived in full by the Government of the United States, subject to the conditions stated in paragraphs 7 and 8, below, which are desired in consideration of the consummation of a final settlement undertaking. Amongst other things, these include:

(a) the furnishing to the Government of the United States by the Government of Brazil of an inventory report of those materials supplied to the Brazilian Expeditionary Force which were returned to Brazil from the Mediterranean Theater of Operations following the end of hostilities;

(b) the formal assurance of the Government of Brazil that neither all, nor any part of the materials mentioned in sub-



paragraph (a) above either have been, or will be sold, transferred, given away or otherwise permitted to come into the possession of any person or persons not lawfully entitled to receive them or to any one who may not be actively or directly associated with the armed forces of Brazil, without the prior consent of the President of the United States.

7. In consideration of the terms and provisions of this settlement arrangement as herein enumerated, the Government of Brazil will process and settle all claims of individuals, firms and corporations domiciled in Brazil and will discharge any liability of the Government of the United States and members of its armed forces and civilian personnel attached thereto, where such claims arise out of acts or omissions in the territory of Brazil of such armed forces or civilian personnel, both line-of-duty and non-line-of-duty, occurring on or after December 7, 1941 and prior to the date of this note. While it is estimated that the total value of such claims may amount to approximately forty-five thousand dollars (\$45,000.), United States currency, the obligation of the Government of Brazil, as assumed hereunder, is not limited to that amount.

8. All other claims, or any other accounts of any character, representing claims of any kind of one Government against the other, or, of third parties against either Government, which are not specifically mentioned or dealt with in this note, are not waived nor in any way affected by the arrangement set forth in this note. However, and pursuant to terms previously agreed upon by representatives of our respective Governments, in the cases of those claims which already may have been made, or which still may be made by the Government of Italy against the Government of the United States for damages alleged to have been incurred against Italian Nationals (military or civilian) by personnel of the Brazilian armed forces attached to the United States' Fifth Army in the Mediterranean Theater of Operations, the Government of Brazil will request the Government of Italy to address all such claims directly to the Government of Brazil.

9. In addition to the reference to claims made in paragraphs 7 and 8, above, the Government of Brazil will process and settle, and discharge any liability of the Government of the United States arising out of a claim involving damages caused in the sinking of the Brazilian sailing vessel *Areia Branca* as the result of collision with the United States Army Transport *Monterrey* on September 28, 1943, near the entrance to the Port of Natal, Brazil. While it is estimated that the maximum of this claim may be eighteen thousand dollars (\$18,000), United States currency, the obligation of the Government of Brazil is not limited to that amount.

10. The Government of the United States is agreeable to the request of Your Excellency's Government that the amount still due, thirty-five million dollars (\$35,000,000), United States currency, as specified in paragraph 3, shall be paid, without interest, in the form of seven (7) annual payments of five million dollars (\$5,000,000), United States currency, each, and that the first of these payments shall become due

and payable on the first day of July, 1948, the second payment on the first day of July, 1949, and remaining five (5) payments on each succeeding first day of July through the year 1954. It is further agreed that the Government of Brazil, at any time and at its own discretion, may advance the date for making any payment or, if it so wishes, may pay the entire outstanding balance in one payment prior to the scheduled due date. Interest at the rate of  $2\frac{3}{8}\%$  per annum shall be charged against any amounts which may not be paid within the stated schedule of payments. Annual payments will be made in the form of legal orders of payment in favor of "The Treasurer of the United States" and will be presented, for appropriate disposition, to the Department of State.

11. Upon the receipt, by the Government of the United States, of the final payment under this settlement arrangement, and conditional only upon the satisfactory fulfillment on the part of both participating Governments of all terms and conditions made a part hereof, the Lend-Lease Agreement of March 3, 1942 shall, by virtue of this settlement arrangement, become terminated by mutual consent of the two signatory Governments as provided for in Article VIII of that Agreement. However, it is mutually agreed that nothing in this settlement arrangement shall, at any time, either waive or modify the force of the provisions of Article VI and of Article VII of the Agreement of March 3, 1942.

There have been handed to an official of the Brazilian Embassy two copies each of statements LL-11, LL-12, and LL-13,<sup>6</sup> together with their respective supporting schedules of accounts; also, a statement of charges made against the pipeline agreement of June 28, 1946. Accompanying this note are two copies of a composite tabulation of the entire lend-lease account upon which this settlement has been based. From the date of this note no further statements of the lend-lease account will be sent to Your Excellency's Government.

If this final settlement arrangement of the Agreement of March 3, 1942 has the concurrence of the Government of Brazil it is requested that Your Excellency direct to the Department of State a formal confirmation of your Government's understanding and acceptance of the several terms and conditions of this arrangement, by means of which a full and final settlement of the Brazilian Government's lend-lease responsibility, except those designated and agreed upon herein as for separate settlement, may be effectively achieved.<sup>7</sup>

Accept [etc.]

ROBERT A. LOVETT

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<sup>6</sup> Not printed.

<sup>7</sup> On April 15, 1948 the Brazilian Ambassador addressed a confirmatory note to the Secretary of State (not printed).

[Enclosure]

## Brazilian Lend-Lease Account

As calculated—January 31, 1948—for final settlement purposes.

<i>Title of Account</i>	<i>Billing</i>	<i>Repayment Schedule</i>	<i>Amount Paid</i>	<i>Balance Due</i>
Lend-Lease Agreement.....	\$200, 623, 422. 67	\$70, 218, 197. 94	\$35, 000, 000	\$35, 218, 197. 94
Pipeline Agreement.....	1, 187, 718. 66	415, 701. 57	.....	415, 701. 57
Req. B-50,780 (est.).....	\$201, 811, 141. 33	.....	.....	35, 633, 899. 51
Transportation (land and air) .....	\$3, 750, 000. 00	.....	.....	.....
Hospitalization and Medical .....	\$2, 475, 130. 74	.....	.....	.....
Special Miscellaneous Charges .....	\$1, 904, 479. 00	.....	.....	.....
	\$4, 586. 76	.....	.....	.....
Unreported charges over.....	8, 134, 196. 50	2, 846, 968. 60	.....	2, 846, 968. 60
	5, 000, 000. 00	1, 750, 000. 00	.....	1, 750, 000. 00
CALCULATED SUMMARY.....	\$214, 945, 337. 83	\$75, 230, 868. 11	\$35, 000, 000	\$40, 230, 868. 11
PROPOSED SETTLEMENT.....	\$200, 000, 000. 00	\$70, 000, 000. 00	\$35, 000, 000	\$35, 000, 000. 00
B. E. F. Account (est.).....	\$67, 033, 159. 84	.....	No Charge.....	.....
Vessels leased under Charter Party.....	\$72, 645, 883. 00	.....Subject to separate settlement arrangement....	.....	.....

Outstanding unsettled "Cash" repayment accounts  
(Not included in the settlement)

	<i>Bal. due from</i>	<i>Bal. due to</i>
Brazilian Aeronautical Commission.....	.....	\$2, 286, 361. 72
Brazilian Military Commission.....	.....	\$243, 412. 53
Brazilian Navy Purchasing Office.....	.....	107, 319. 63
Brazilian Airplane Engine Factory Commission (*).....	.....	202, 728. 03

(\*) Converted to public corporation with government control.



811.516 Export-Import Bank/4-2748

*Memorandum by Mr. J. J. Stenger of the Division of Investment and Economic Development to the Chief of That Division (Havlik)*

[WASHINGTON,] April 27, 1948.

Subject: Agenda for Meeting of Board of Directors Eximbank  
April 28, 1948.

5. *Brazil—Sorocabana Railway.* On April 23, 1947 a credit of \$6,649,021 was authorized for the Electrical Export Corporation to finance the sale of electric locomotives and electrification equipment for the Sorocabana Railway of Brazil. The credit was guaranteed by the State of São Paulo.

The Railway has become very seriously involved financially and has defaulted in the payment of its notes. The State of São Paulo has failed to make good on its guarantee of the Sorocabana paper. The aggregate amount owing to the Bank including interest is close to \$1,680,000 covering a disbursement of about \$1,425,000. The Bank has postponed the purchase of notes presented. Other notes will shortly be presented. The Bank has had conversations with Mr. Bouças, who has presented a plan for reducing the payments on the principal of the loan and has offered the guarantee of the Banco do Brasil if the plan is accepted.

The staff has studied the possibility of requesting the suppliers to suspend the work and shipments under the contract, but the work has advanced to a stage where this would not be practicable to do so or where it would prove too costly. The Electrical Export Corporation is being pressed for payment by the suppliers.

The credit expires on June 15, 1948. The staff has recommended that the expiry date be extended to December 31, 1948; that Mr. Bouças be informed, through the Electrical Export Corporation, that he may present to the Brazilian Minister of Finance his plan for the adjustment and guarantee of the obligations as being acceptable to the Bank; and that the purchase of notes drawn under the credit be resumed in accordance with the terms of the agreement.

*Recommendation:* While this is a matter which is of immediate concern to the Bank, the Department would be willing to express its views provided that it had more time to study the proposal. The agenda and documents were received too late for the Department to consider the paper prior to this meeting.

6. *Brazil—National Railways.* In April 1947 the Steam Locomotive Association (the American Locomotive Company and the Baldwin Locomotive Works) filed an application for financing the sale of

130 locomotives for the National Department of Railways of Brazil. This application was withdrawn on April 14, 1948. American Locomotive Company withdrew from the Association. Baldwin has now applied on its own account for a commitment to finance the entire order. The total value of the order is about \$14 million, of which 30% or about \$4.2 million will represent cash payments leaving 70%, or about \$9.8 million, to be financed. The Eximbank has been asked to finance, without recourse, about 85% of the balance to be financed (\$8,330,000) or 59.5% of the invoice value. The obligor will be the National Department of Railways of Brazil, the obligations to be guaranteed by the Banco do Brasil. It is proposed to amortize the credit over a 5 year period starting six months from the date of delivery, with interest at 4%.

*Recommendation:* The staff's memorandum was received at a late hour this morning. There has hardly been time to read it and no time to digest the facts. The Department is not prepared to comment at this time.

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832.51/5-448

*Memorandum by the Associate Chief of the Division of Investment and Economic Development (Longstreet) to the Chief of That Division (Havlik)*

[WASHINGTON,] May 4, 1948.

Subject: Brazil—Eximbank Credit No. 424, Electrical Export Corporation, Sorocabana Railway Electrification.

*Background:* In April 1947 Eximbank, with State Department concurrence, authorized for the second electrification program of the Sorocabana Railway two loans at the interest rate of 4.5%. Loan No. 1, or Credit No. 424 (\$6,649,021 amortizable in seven years), was on behalf of the Electrical Export Corporation, New York for 26 electric locomotives and other electrification equipment, Loan No. 2 (\$1,500,000 amortizable in five years) on behalf of the Whitcomb Locomotive Company, Rochelle, Illinois to finance delivery of 15 Diesel-electric locomotives. The security of the loans rested upon guarantee by the State of São Paulo, which owns Sorocabana. This railway was, moreover, in a rather strong financial position.

However, in embarking subsequently upon major improvements the railway assumed a disproportionately large volume of short-term indebtedness in anticipation of an increase in rates which did not materialize. Also, there are indications that in 1947 receipts have been falling off while expenses were at a record high. Sorocabana has thus

not been able to live up to the payment plan for Loan No. 1. The first note maturing under it and due December 1, 1947, was paid as late as February 1, 1948 by the Banco do Brasil instead of by Sorocabana or by its owner, i.e., the State of São Paulo. The State itself has been struggling for some time with considerable financial difficulties.

The availability of Loan No. 2 to the Whitcomb Company will expire June 15, 1948. No deliveries have as yet been made under this credit and Eximbank believes that in view of the financial position of Sorocabana the Whitcomb Company will not take advantage of the Eximbank commitment.

Recently the Brazilian Ministry of Finance became interested in this project. Because of the financial difficulties involved a representative of the Ministry now suggests the following amortization plan: The semi-annual payments for principal and interest to be reduced to \$250,000 for a period of three years, to be resumed in the full original amount of \$798,000 for the remainder of the original term (comprising seven semi-annual payments) and to be followed by six added semi-annual payments of around \$732,000. In other words, the duration of the loan would be raised from seven to ten years. In consideration of the concession which Eximbank would make by changing the amortization plan the Brazilian Finance Ministry will secure a Banco do Brasil guarantee.

Owing to the delay in Sorocabana payments Eximbank stopped buying notes from the Electrical Export Corporation. Under Loan No. 1 the expiration date for availability of credit to the Corporation is June 15, 1948. Since some equipment is still to be shipped and since two notes aggregating \$1,000,000 have not been bought by the Bank and a third one for \$559,000 is to be presented shortly, the Corporation has requested an extension of the availability of the credit to December 31, 1948. In the absence of Eximbank purchase of notes corresponding to goods already shipped, the Electrical Export Corporation has not been able to make agreed payments to the General Electric Company, Westinghouse and other suppliers. Deliveries by these companies are at an advanced state. Shipments of \$3,225,000 had already been made at the time when Sorocabana failed to pay the December 1, note. Another \$1,000,000 of equipment was then nearing shipment, and work was in progress on nearly the entire balance of the contract. Much of the equipment was built according to such specifications as would make it difficult or impossible to dispose of it in other markets.

*Eximbank Recommendations:* In a memorandum of April 26, 1948 to the Board of Directors an Eximbank Staff Committee recommends that: (1) the availability of the credit under Loan No. 1 be extended to December 31, 1948, (2) the Electrical Export Corporation inform the Brazilian Ministry of Finance to the effect that the proposals for



adjustment and guarantee of the obligations given under this credit are acceptable to Eximbank, and (3) purchase of notes drawn under this credit be resumed in accordance with the agreement between the Electrical Export Corporation and Eximbank.

*State Department Recommendation:* As there is strong economic justification for the continuance of the electrification program, and as the guarantee of the Banco do Brasil has become desirable ED, with the concurrence of BR and FN, suggests that the recommendations made by the Eximbank Staff Committee be strongly supported.

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811.516 Export-Import Bank/5-1448 : Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, May 14, 1948—1 p. m.

371. For Conf info Emb. Board Directors Eximbank May 12 approved application Baldwin Locomotive Co for commitment to finance sale 130 locomotives for Departamento Nacional de Estrada de Ferro. Value order about \$14 million of which Eximbank will agree finance \$8,230,000. Obligor to be National Dept Railways and obligations to be guaranteed by Banco do Brasil. Credit to be amortized over 5 year period starting six months from date delivery with interest 4 percent. Application approved with provisions that this commitment also available any other US bidders for same business; that it be automatically cancelled at end three months if not accepted by a US manufacturer subject however to another three months extension upon request interested bidder; and that financing be available until Dec 31 1949. It must be clearly understood that is merely commitment to Baldwin to permit them present offer of sale to Railways. No order has yet been placed and Brazil authorities not aware this proposal. Bank strongly recommends and Dept concurs that this info not be repeated outside Emb.

MARSHALL

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811.516 Export-Import Bank/7-1248 : Telegram

*The Secretary of State to the Embassy in Brazil*

WASHINGTON, July 12, 1948—5 p. m.

515. Because of beneficial influence of increased US tourist and commercial travel in promoting trade and alleviation of dollar exchange shortages, Dept has been supporting program of Intercont Hotel Corp subsidiary PanAm Airways to build chain of hotels, including Rio and São Paulo with assistance Eximbank financing up to

50 percent total cost acceptable projects. Dept hopes for acceleration of program but understands that great difficulties have been encountered in enlisting participation of local capital. Would appreciate report on any impeding factors plus suggestions as to actions which might overcome them.

While it is not US policy to encourage other govts to penetrate sphere private business, there was no objection to Venezuelan Govt participation in Caracas hotel project which Eximbank recently approved.

Dept support would also be given hotel projects other companies with sound economic and financial basis and with adequate assurance efficient management.

Emb is authorized to convey to appropriate officials strong interest of US in hotel projects and is further authorized to use its good offices to advance meritorious projects.

MARSHALL

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811.516 Export-Import Bank/11-248

*Memorandum by Mr. J. J. Stenger of the Division of Investment and Economic Development to the Director of the Office of Financial and Development Policy (Knapp)*

CONFIDENTIAL

[WASHINGTON,] November 2, 1948.

Subject: Agenda for Meeting of Board of Directors Eximbank  
November 3, 1948.

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4. *Brazil—Twin Coach Company.* The Twin Coach Company has requested the Bank to again change the terms of the credit, authorized by the Bank on July 21, 1948 and amended on September 1, 1948, to finance the sale of busses for use in Brazil. The proposal would increase: (1) Eximbank financing to \$3,565,000 instead of the present \$3,288,000; (2) number of busses to 230 instead of 200; (3) Twin Coach participation with their own funds to 15% (or \$629,000) instead of 10% (or \$365,000) as compared to the existing credit. Twin Coach reserve liability with respect to financing done by Eximbank would remain unchanged at 25% of the Bank's commitment but would increase in amount to \$891,000 instead of the present \$822,000. The increase in the number of busses would be obtained by cancelling 50 busses for Relampago (Rio), and increasing from 120 to 200, the number of busses financed for the São Paulo Municipal Transport Corporation.

Twenty-five busses have already been shipped to Relampago of Rio,

for which Twin Coach would endeavor to secure other financing. An amicable agreement has been reached for cancelling or deferring the remainder of 25 in the Relampago sale. The credit modification as requested would provide, then, for the sale of the 30 busses to the São Paulo-Santos line (Cometa) and an increase from 120 to 200 busses for CMTC.

A condition of the Eximbank approval, which is still unsatisfied, is the securing of registry and exchange assurances from the Brazilian exchange control authorities. The Finance Minister has indicated a reluctance to allocate exchange for this purpose but has not stated definitively that the application has been or will be denied. At present it is uncertain whether registration and exchange assurances will be granted.

It may be recalled that in consideration of the previous action on July 21, 1948 the Bank cut the number of busses for CMTC from 200 to 120 which, in the judgment of the staff of the Bank, was considered sufficiently large to permit economical operations. The staff committee, on the basis of the material submitted, is not inclined to change its view on this point. The staff committee is also of the opinion that the Bank should not place itself in the position of proposing to the exchange control authorities and the Finance Minister of Brazil an increase in the exchange allocation after the authorities have indicated their reluctance to allocate exchange for this purpose. The staff committee, therefore, recommends that there be no change in the terms of the credit as previously authorized.

Recommendation: The Department does not object to the recommendation of the staff. This has been cleared with the other interested divisions in the Department.

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811.516 Export-Import Bank/12-2148

*Memorandum by Mr. J. J. Stenger of the Division of Investment and Economic Development to the Chief of the Division of Financial Affairs (Spiegel)*

[Extracts]

CONFIDENTIAL

[WASHINGTON,] December 21, 1948.

Subject: Agenda for Meeting of Board of Directors Eximbank  
December 22, 1948.

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3. *Brazil—American & Foreign Power Company.* The American & Foreign Power Company first submitted an application in January, 1948 for a credit of \$24,547,000 to finance the purchase of U.S. equip-



ment, supplies and services required for an expansion program for twelve of its operating subsidiaries in Brazil during the 4-year period 1948-51. The entire cost of this program was estimated at \$70,707,000 with local construction costs amounting to \$46,160,000. Consideration of this application along with other applications was deferred awaiting a settlement of the Vale do Rio Doce matter.

On October 28, 1948 the Bank's staff advised the applicant that its request of September 20, 1948 for an immediate credit of \$8,129,000 to finance the U.S. costs of that part of the 4-year program which was already under way and which would be completed by September 1, 1949, could not be recommended since it would imply further commitments by the Bank on the January application.

Consequently, an amended application dated November 3, 1948 for an immediate credit of \$8,278,000 was made by American & Foreign Power Company. The applicant agreed to withdraw its January application, but stated such withdrawal was made without prejudicing its "right" to apply for further credits for its Brazilian subsidiaries approximately \$24.5 million.

The amended application proposes that the Bank purchase obligations of twelve of the applicant's Brazilian operating subsidiaries in amounts corresponding to their individual requirements in the aggregate total of \$8,278,000. The applicants top holding company, the Brazilian Electric Power Company, would be the guarantor. The applicant and its associated companies will subordinate their creditor position with relation to the Brazilian subsidiaries in case of their default in the payment of principal or interest. They undertake to obtain an exchange guarantee from Brazilian Government similar to those given to the Bank by other Brazilian debtors. The loan would bear interest at  $4\frac{1}{2}\%$  with repayment in semiannual installments during 10 years beginning March 1, 1950. The total estimated cost of this part of the program scheduled for completion in September, 1949 is \$13,150,000. In addition to Bank participation, \$4,011,000 will come from current earnings of the operating subsidiaries and \$861,000 will be advanced by the applicant.

Proceeds of the credit would be used to finance the purchasing of materials, equipment, technical services and forwarding costs as follows:

(a) Payments made between January 1 and Sept. 9, 1948	\$2, 121, 000
(b) Payments to be made on orders already placed	3, 353, 000
(c) Payments on orders not yet placed	2, 804, 000
Total	<u>\$8, 278, 000</u>

The amount under (a) when reimbursed plus \$900,000 to be advanced by the applicant will provide part of the funds required to meet local construction costs.

Included in (a) is the sum of \$521,000 (including shipping costs) spent for materials and equipment forwarded to Brazil on Brazilian and other foreign flag vessels, reimbursement for which applicant understands is contingent upon its securing a waiver from the Maritime Commission of provisions of Public Resolution No. 17, 73rd Congress.

Applicant has already placed orders in Switzerland and Canada for equipment costing about \$275,000 which is to be used in program covered by the application. In view of this small amount, however, the Bank's staff has indicated it will not recommend elimination of these offshore purchases.

The Bank's staff is satisfied that private capital, either in the U.S. or Brazil, is unavailable. However, one commercial bank is interested in the purchase of the first two or three years' maturities, if Eximbank will guarantee the exchange (but not the rate) of *cruzeiros* for dollars.

The Bank's staff recommends approval of the application subject to certain terms and conditions including suitable exchange requirements, reasonable indication that borrowing companies will be permitted to operate during the life of the loan and suitable controls by the Bank, through covenants in loan agreement, over financial operations of the borrowers and the guarantor.

The NAC on December 17, 1948 approved the consideration of the credit.

In reply to the Department's telegraphic inquiry, the Embassy in Rio reported by cable on December 20, 1948 that because of the limited time for investigation, its report must be of a preliminary nature. The Embassy feels that all of the subsidiary companies, except Cia Energia Electrica da Bahia have rate problems, particularly with regard to streetcar operations. The Embassy also believes that the Federal Government is, as a general rule, favorably disposed toward the development of the BEPCO subsidiaries, but that some of the subsidiaries are confronted with state government political problems, and that this is particularly true with regard to the following companies; Cia Força e Luz Nordeste; Pernambuco Tramways & Power Company; and Cia Energia Electrica Rio Grandense. Finally the Embassy is of the opinion that it is important that the position of the state governments be clarified before the loan is granted, as well as the "supposedly" poor financial position of Nordeste which has Brazilian shareholders.

While the Embassy does not make a specific recommendation, the Embassy's cable may be construed to imply that it has no objections

to the approval of the credit, provided that the Bank clarifies the position of the state governments.

This whole matter was discussed with the staff of the Bank, and a member of the staff remarked that it was familiar with the points raised by the Embassy, but that it would not adversely affect the decision of the staff. The staff believes that the Bank will be fully protected with the unconditional guarantee of BEPCO, the Brazilian holding company owned by American & Foreign Power.

*Recommendation:* While the political and the economic officers in the Department are of the opinion that the Department should not object if the Bank wishes to extend the credit in spite of the warning from the Embassy, because there are no political objections per se and because the projects when completed will benefit Brazilian economy, they do feel that the Embassy's comments merit careful consideration. Unless the position of the state governments is clarified, the Bank may at some time or other find itself in a difficult position because of local politics, especially in view of the fact that the Bank is advocating "that suitable controls over the financial operations of the borrowers and the guarantor be retained by the Bank through covenants approved by the General Counsel".

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## PROBLEMS OF TRADE BETWEEN BRAZIL AND THE UNITED STATES<sup>1</sup>

832.61333/1-2848: Telegram

*The Chargé in Brazil (Key) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, January 28, 1948—6 p. m.

90. Minister Fernandes<sup>2</sup> has requested by letter that I inform him, after consulting the Department, of the views of our government with respect to the possibility of developing the export of coffee to western Europe either by inclusion in the products to be supplied by US under ERP<sup>3</sup> or purchase by ERP countries out of resources provided by US.

Minister asserted that Foreign Office has received insistent requests and is under strong pressure from numerous sources including press to obtain inclusion coffee in ERP. He stated that he had refrained up to present from raising this question realizing that ERP is still dependent on legislative approval but now felt that he must inquire since foreign press despatches report that Congress is discussing detailed measures relative to extent and nature European aid and that

<sup>1</sup> For documentation of trade matters in 1947, see *Foreign Relations*, 1947, vol. VIII, pp. 421 ff.

<sup>2</sup> The Brazilian Foreign Minister, Raul Fernandes.

<sup>3</sup> For documentation on the European Recovery Program, see vol. III, pp. 197 ff.



these discussions may result in inclusion or exclusion coffee in ERP after which it would be too late to take diplomatic action with respect to this important Brazilian product.

Foreign Minister emphasized that favorable response to his inquiry would have beneficial repercussions as our government is aware that Brazilian cooperation in assisting Europe in form UNRRA donations and credits to Britain and sterling area had been costly to Brazil and in excess her weakened economic capacity. He pointed out that problem Brazilian exports to Europe, payable in internationally accepted currencies, is important to Brazil for she no longer is in position to export against payments in soft currencies. He indicated Brazil would consider leaving in US for payment American export dollar funds accruing from Brazilian exports to Europe.

*Comment:* The pressure mentioned by Fernandes has come largely from the São Paulo coffee producers who view ERP as an instrument to assure movement of accumulating stocks of low grade coffee unsuitable for US consumption. The Foreign Minister's letter undoubtedly has also been prompted by government's desire to see this coffee exported to Europe, preferably by US purchase under ERP, against dollar payments as this would relieve government of eventual necessity of adopting measures for carrying these stocks. At same time it would ease stringent exchange situation.

As general policy government is uninterested in exporting to Europe against payments in soft currencies which allegedly it is unable to utilize owing refusal Europeans to accept their own currencies in payment Brazilian purchases or to accept firm orders for reasonably prompt delivery for goods urgently needed in Brazil.

I would appreciate receiving soonest for communication to Foreign Minister the Department's views on the question he has raised.

KEY

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832.61333/1-2848 : Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, February 3, 1948—7 p. m.

98. You may inform FonMin that coffee is included among commodities in Administration proposal for ERP which estimates 275,000 metric tons of coffee for importation into CEEC countries from western hemisphere during first 15 months. Thus Dept has taken position helpful to Braz and other coffee exporters.

It is however far too early to forecast how closely Congressional

action on ERP will follow Administration proposal. In Committee hearings there have been suggestions that ERP funds be used only in US or that offshore buying (e.g. from Latin America) be held to minimum and confined to absolute necessities but Dept hopes more liberal views which it is strongly supporting will prevail. However final determination of place of coffee in ERP must necessarily await Congressional action, appointment of administrator and formulation of policy by latter. (Urtel 90 Jan 28).

You should make sure that FonMin understands that ERP will be financed only in part from funds to be appropriated by Congress and that use will also have to be made of export proceeds of participating countries, loans and credits from other sources, etc.

Assure FonMin of Dept's continued sympathetic consideration of Braz problems in connection with ERP.

Following pgh for your info only and not for discussion with Brazs at this stage. With limitations pointed out above Dept obviously cannot support underwriting of all Braz coffee trade with Europe. It does however hope that ERP will emerge in such form that some coffee purchases can be financed by US. It would improve possibilities if Braz were to offer to donate or extend credits to CEEC countries covering some of accumulated coffee not marketable in US.

Dept feels strongly that coffee pledged as security for São Paulo loan should not be disposed of until bonds liquidated. Would appreciate your comments on this phase.

Assume FonMin realizes that coffee speculation and increased prices in Braz as result of ERP hopes might endanger inclusion of coffee in ERP because of bad effect here. We trust these can be avoided.

MARSHALL

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611.3231/6-148: Telegram

*The Chargé in Brazil (Key) to the Secretary of State*

RESTRICTED

RIO DE JANEIRO, June 1, 1948—7 p. m.

602. Lopez Rodriguez of Ministry of Finance inquired re status present US/Brazil reciprocal trade agreement<sup>1</sup> when GATT takes effect. He understands present agreement is not to be denounced but instead is to be suspended while GATT remains in force through exchange of notes. Telegraph action proposed this connection.

KEY

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<sup>1</sup> Department of State Executive Agreement Series No. 82.

611.3231/6-148: Telegram

*The Secretary of State to the Embassy in Brazil*

RESTRICTED

RIO DE JANEIRO, June 4, 1948—noon.

414. Rodriguez substantially correct (urtel 602, June 1). Procedure adopted Geneva<sup>1</sup> would be render US-Brazil trade agreement, except right of termination on six months' notice, inoperative while two Govts are both Contracting Parties GATT. Same policy adopted with present Contracting Parties having bilateral trade agreements with US, and given effect through signature supplementary agreement. Such agreement with Brazil, perhaps by exchange notes, necessary accomplish foregoing. In US, Presidential Proclamation would make effective GATT concessions initially negotiated Brazil which not yet effective. Instruction follows.

MARSHALL

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<sup>1</sup> The reference is to the General Agreement on Tariffs and Trade signed at Geneva, October 30, 1947 by eight countries and for those countries effective on January 1, 1948. For text of the agreement see Department of State, Treaties and Other International Acts Series No. 1700. For documentation on United States policy leading to the agreement, see *Foreign Relations*, 1947, volume I.

611.3231/6-148: Telegram

*The Secretary of State to the Embassy in Brazil*

RESTRICTED

WASHINGTON, June 21, 1948—7 p. m.

455. Reurtel 602 June 1 and Deptel 414 June 4, both concerning procedure for putting GATT into effect between US and Brazil and rendering inoperative existing US-Braz bilateral trade agreement.

On US part, Presidential Proclamation necessary make effective GATT concessions initially negotiated with Brazil which not yet in force. In view considerations Depcirtel May 28,<sup>1</sup> Emb should again bring to attention Braz Govt importance of Brazil's signing Protocol Provisional Application by June 30. Dept hopes Braz Govt can do this and instructions herein based on that assumption.<sup>2</sup>

Re procedure for rendering inoperative existing trade agreement, Dept after much consideration feels would be preferable accomplish this by exchange notes, as suggested Deptel June 4, and advisable effect exchange in Rio. In view short time before June 30, Chargé d'Affaires requested proceed at once make necessary arrangements.

Dept requests text US note be along following lines:

"EXCELLENCY: I have noted with pleasure that Govt of US of Brazil has signed today (or: on June —, 1948) Protocol Provisional Appli-

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<sup>1</sup> Not printed.

<sup>2</sup> In his telegram 497, July 7, 1948, 11 a. m., to the Embassy, not printed, the Secretary of State indicated that the Brazilians had signed the Protocol.



cation of General Agreement Tariffs and Trade, dated Oct 30, 1947.

In this connection I have honor refer to conversations between representatives of Braz Govt and Govt of USA to Second Session Preparatory Committee UN Conference on Trade and Employment with respect to effect of entry into force of GATT between USA and US of Brazil upon Trade Agreement between our two Govts concluded 1935.

It is understanding of US Govt that it was then mutually agreed that the Trade Agreement between USA and US of Brazil signed Feb 2, 1935, except for those provisions of Art XIV thereof providing for termination upon six months' notice, the notes exchanged Feb 2, 1935 to accompany that Agreement, and the Supplementary Agreement with accompanying exchange of notes, signed Apr 17, 1935, shall be inoperative for such time as USA and US of Brazil are both contracting parties to GATT, as defined Art XXXII that Agreement.

I shall be pleased receive Your Excellency's confirmation of understanding set forth above.

Accept, etc."

Appropriate Braz authorities should be approached soonest for purpose obtaining their concurrence to procedure and proposed text. Text this Govts note similar that used at Geneva.

Although not essential, considered desirable Brazil sign Protocol same date notes exchanged and therefore requested this procedure be recommended Braz authorities.

If Braz Govt does not make counterproposals or substantive changes in notes, Chargé may proceed to signature without further authorization from Dept.

Upon exchange, Emb should forward Dept (1) signed original of Braz note, (2) certified copy of US note, indicating letterhead and signature. Emb should retain certified copy Braz note in its files.

Pls keep Dept informed all pertinent developments.

MARSHALL

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611.3231/7-1048: Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, July 21, 1948—3 p. m.

550. Dept has been giving further study questions raised by exchange notes (Deptels 455 June 21, 497 July 7 and urtel July 10<sup>1</sup>).

Notes provide termination existing bilateral trade agreement at time Brazil becomes Contracting Party GATT. According Protocol Provisional Application GATT Brazil Contracting Party no later than July 31 and Presidential Proclamation issued here July 15 makes US rates negotiated Brazil effective former date. Dept not perturbed

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<sup>1</sup> Telegrams 497 and 763 not printed.

over one day time lag caused by Braz project of law specifying Aug 1 as effective date GATT. Dept concerned about ambiguous and confusing situation re Braz tariff rates and possibly greatly increased tariff rates which would confront US exporters in event exchange notes terminating existing agreement July 31 consummated but Braz Congress fails ratify GATT by Aug 1.

If in Embs opinion any danger GATT will not be ratified until several days or longer beyond July 31 Emb is requested discreetly suggest to Braz authorities completion of exchange notes be deferred until ratification GATT by Braz Congress.

Presidential Proclamation terminating Proclamation of 1935 agreement being withheld pending receipt your telegraphic comments on present situation and foregoing.

MARSHALL

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611.3231/7-2348 : Telegram

*The Ambassador in Brazil (Johnson) to the Secretary of State*

CONFIDENTIAL

RIO DE JANEIRO, July 23, 1948—2 p. m.

817. Congress is not ratifying GATT but approving signature protocol for provisional application and authorizing the 40 percent tariff readjustment (urtel 550, July 21). Finance committee Chamber Deputies July 21 approved above which should now be sent to floor for plenary approval. Such approval expected rapidly although some possibility industry and commerce committee might first be called upon for opinion. Subsequent Senate approval also required. Confidentially informed Congressional leaders promised government to obtain approval by end month. Brazilians feel that as exchange notes does not terminate 1935 agreement but makes it inoperative while both countries contracting parties to GATT, existing rates under 1935 agreement not affected until GATT provisionally placed into force here.

If legislation passed in closing days of month possibility exists insufficient time to publish new rates by August 1 but government could find ways and means of making them applicable to goods in customs on August 1.

Conversation with Lopez Rodriguez revealed Brazilians do not feel obligated to remove immediately existing inconsistent discriminatory taxation (consumption tax) under text (B) of protocol but only when GATT or Habana charter<sup>1</sup> are ratified and come into full effect. Brazil nevertheless intends to remove such discriminatory taxation as

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<sup>1</sup> For the text of the Charter, see Department of State, *Charter for an International Trade Organization*, March 24, 1948. For documentation on the agreement, see volume I.

soon as action can be obtained from Congress but this does not appear likely until next year.

JOHNSON

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611.3231/7-2348 : Telegram

*The Secretary of State to the Embassy in Brazil*

RESTRICTED

WASHINGTON, July 30, 1948—5 p. m.

568. Deptel 550 Jul 21 was sent on chance Braz note not yet received or transmitted Dept. In view urdes 838 Jul 15<sup>1</sup> enclosing both notes, and urtel 817 Jul 23 expressing optimism Brazil will take necessary steps make rates effective Aug 1, proclamation making inoperative 1935 agreement has been submitted President. Signature expected today. Accordance Braz request, no publicity will be given before Jul 31.

Dept plans issue press release Aug 2 including texts proclamation and exchange notes. Emb requested so inform FonOff.

Re last Para urtel 817, Dept concurs Braz interpretation but hopes nevertheless early action can be taken correcting taxation mentioned.

Pls telegraph progress GATT legislation and any further pertinent amendments thereto.

MARSHALL

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<sup>1</sup> Not printed.

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600.329/8-2548 : Telegram

*The Secretary of State to the Embassy in Brazil*

CONFIDENTIAL

WASHINGTON, August 31, 1948—5 p. m.

646. Dept greatly concerned reported prohibition exports canned meat reported Embtel 955, Aug 25.<sup>1</sup> Wilson and Co, Chicago, advised that on basis Carteira position described Embtel 905, Aug 13,<sup>1</sup> has firm commitment for 650,000 lb. canned beef and request to offer 2,640,000 lb. additional from US Army Quartermaster, all for shipment to Greece arrival not later than Oct.

Dept fully appreciative difficulties facing Braz Govt in allowing these exports in face further rationing restrictions. Emb requested follow matter closely and reemphasize, if opportunity presents itself, these stocks canned beef reportedly unmarketable in Brazil urgently needed Europe. Advise Dept soonest if Finance Min requested recon-

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<sup>1</sup> Not printed.



sideration reported new prohibition <sup>2</sup> against exports and results these representations.

MARSHALL

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<sup>2</sup> In telegram 987, September 3, 4 p. m., not printed, the Embassy reported that the prohibition was lifted (600.329/9-348).

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#### AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL RESPECT- ING RECIPROCAL TRADE

[For agreement, rendering inoperative the agreements of February 2, 1935, and April 17, 1935, and supplementing the General Agreement on Tariffs and Trade of October 30, 1947, effected by exchange of notes signed at Rio de Janeiro June 30, 1948, effective July 31, 1948, see Department of State Treaties and Other International Acts Series No. 1811, or 62 Stat. (pt. 3) 2799.]

## CANADA

### COOPERATIVE STUDY OF CLOSER ECONOMIC TIES BETWEEN THE UNITED STATES AND CANADA<sup>1</sup>

842.20 Defense/1-248

*Memorandum by the Assistant Chief of the Division of British Commonwealth Affairs (Foster) to the Director of the Office of European Affairs (Hickerson)*

CONFIDENTIAL

[WASHINGTON,] January 2, 1948.

Subject: Attacks on the Hyde Park Agreement

There has recently been an increasing disposition in various quarters of the Government to advocate the abrogation of the Hyde Park Agreement<sup>2</sup> on the ground that it stands in the way of the U.S. preventing the export to Canada of commodities in short supply in this country. I attach a clipping from today's *Washington Post* which is not only indicative of this trend but somewhat alarming as well. Ty Wood<sup>3</sup> will testify before the Senate Small Business Committee next week, possibly on Monday, and will try to defend the Agreement. Meanwhile, at a meeting recently in the Commerce Department, where fuel oil was under discussion, a Commerce official declared that as far as his Department was concerned the Agreement was "out the window".

BC continues to give all possible support to the Agreement. We are taking the line that it will not prevent the U.S. putting on export controls against goods going to Canada, if such controls are necessary and if we consult in advance with the Canadians. Beyond this we are arguing that the Agreement and the Ogdensburg Declaration are the two big symbols of our extraordinarily close relationship, et cetera, and it would seriously damage cooperation if we abrogated Hyde Park. We have urged that Hyde Park represents a spirit which should be

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<sup>1</sup> For previous documentation, see *Foreign Relations*, 1947, vol. III, pp. 116 ff.

<sup>2</sup> An arrangement between the United States and Canada that grew out of the Hyde Park declaration by President Roosevelt and Prime Minister Mackenzie King on April 20, 1941. For text, see Department of State *Bulletin*, April 26, 1941, p. 494. The arrangement was continued into the reconversion period following the war by an exchange of notes signed at Ottawa May 7 and May 15, 1945, printed in Department of State *Treaties and Other International Acts Series No. 1752*.

<sup>3</sup> Clinton Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs.

preserved and that it is the foundation for consultation in those many economic problems of mutual concern to the two countries.

Do you approve our strong and continued efforts to prevent the abrogation of the Hyde Park Agreement? <sup>4</sup>

ANDREW B. FOSTER

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Hickerson's answer, handwritten in the margin, was "Yes, JDH."

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FW 611.422/10-2649

*Memorandum by the Assistant Secretary of State for Economic Affairs  
(Thorp) to the Under Secretary of State (Lovett)*

TOP SECRET

[WASHINGTON,] March 8, 1948.

Subject: Proposed Elimination of Trade Barriers between the  
United States and Canada

I mentioned to you several weeks ago that technicians of this Department and the Canadian Government have been exploring the possibilities of developing a treaty or agreement for the removal of tariff and other trade barriers between the United States and Canada. As a leak would kill the plan, the U.S. group working on it has been kept small and limited to this Department; the Canadian group has been restricted to a few high level officials.

The Canadians consider the proposal, if implemented, to be one of the most momentous decisions in their history. Prime Minister Mackenzie King was consulted and has authorized the attempt to develop a specific plan.

The attached memorandum outlines a plan believed to be the most promising of many that have been considered. The Canadians are ready to take it to the Prime Minister. Before they do so we should be certain that it is the considered judgment of the Department that the plan offers a sound basis for negotiation.

The attached memorandum also covers the matter of timing and obtaining bi-partisan support, which is essential. In spite of the difficulty of negotiating in an election year we should give very careful consideration to the proposal. The present may offer a unique opportunity of promoting the most efficient utilization of the resources of the North American Continent and knitting the two countries together—an objective of United States foreign policy since the founding of the Republic.



[Enclosure]

*Memorandum by the Associate Chief of the Division of Commercial Policy (Willoughby) to the Assistant Secretary of State for Economic Affairs (Thorp)*

TOP SECRET

[WASHINGTON, undated.]

Subject: Proposed Elimination of Trade Barriers between the United States and Canada

In accordance with our conversation last Friday there is summarized below the plan which has emerged from discussions with Canadian technicians as the most promising basis for agreement to eliminate trade barriers between the United States and Canada. I have also included suggestions in regard to timing and methods for obtaining bipartisan support.

*Outline of Proposal*

- (a) Immediate removal of all duties by both countries.
- (b) Prohibition of all quantitative restrictions on imports after 5 years except that (1) the United States would retain right to impose absolute quotas on imports of wheat and wheat flour, and (2) Canada would retain right to impose absolute quotas on imports of certain fresh fruits and vegetables during Canadian growing season.
- (c) The United States would retain right to impose absolute transitional (5-year period) quotas on certain products now subject to tariff quotas (most of the sensitive items from the United States standpoint), with provision for progressive increase in quotas during 5-year period.
- (d) Canada would retain right to impose absolute transitional quotas on certain products during 5-year period, with provision for progressive increase in quotas during period.
- (e) Provision would be made for joint consultation, particularly for working out joint marketing agreements for agricultural products.
- (f) Any controls imposed on exports of short-supply items would be made subject to principle of equal sacrifice and equal benefit, and advance consultation would be required before imposition of such controls.
- (g) Consideration is being given to a clause ensuring, in the event that one country is subject to military attack, continued free access to the products of the other.

*Principal Advantages*

- (1) Maximum dramatic appeal, encouraging widespread support.
- (2) Simplicity of operation, with concomitant advantages in ability of public to understand proposal, ability of proponents to defend against criticism, and avoidance of serious technical difficulties.

(3) Permits early announcement, without extended preliminary negotiations.

(4) Takes maximum advantage of adjustment opportunities provided by present scarcity-and-demand situation, and by prospect that ERP will prevent large immediate increase in movement of goods from Canada to U.S., and thereby reduce immediate impact on U.S. agriculture and industry.

(5) Would result in immediate elimination of all Empire preferences granted by Canada, with important political and economic implications for the United States.

(6) Would enable Canada simultaneously to make similar offer of free trade to the UK which would lessen likelihood of British opposition to proposal.

(7) Would limit the range of products for which transitional protection would be provided, and would avoid extensive discriminatory treatment between products.

(8) Would ensure transitional protection for most sensitive U.S. imports.

(9) Would immediately remove serious obstacles to Canada exports to the United States connected with U.S. customs administration.

(10) Would permit retention United States freedom of action with respect to imports of wheat and wheat flour, the two most important items from the U.S. standpoint.

(11) Would permit retention Canadian freedom of action with respect to seasonal movements of certain fresh fruits and vegetables, thus increasing support from Canadian agriculture.

(12) Would limit restrictions for balance-of-payments reasons to transitional quotas; Canada would give up unilateral right to impose restrictions for balance-of-payments reasons.

(13) Would provide flexibility under formula for progressive increase in transitional quotas permitting rational readjustment for Canadian industries and over-all adjustment for ERP requirements.

#### *Principal Disadvantages*

(1) Involves greater immediate reduction of barriers on part of the United States than by Canada, only partially offset by Canada's loss of preferential treatment.

(2) Limits transitional protection to relatively few industries, and may be criticized on the grounds that such transitional protection is provided on an arbitrary basis.

#### *Timing and Political Aspects*

These present serious problems. In spite of the difficulties of concluding the agreement in an election year we are convinced that it should

be signed and announced this spring. Moreover, the project must be bi-partisan.

There has never been a time when conditions in Canada, both economic and political, were more favorable. In the United States we believe that the public would favor it on both economic and strategic grounds.

Postponement would incur a serious risk that conditions would so change that we would lose a unique opportunity to knit the two countries together—an objective of United States policy ever since the founding of the Republic. Prime Minister Mackenzie King retires in August and his successor may not be equally favorable to the plan. A serious break in commodity prices or other economic or political factors might intervene to make it impossible to conclude the agreement.

Before carrying the project to a point where leaks are probable, the most careful consideration should be given to the method of negotiating and presenting the agreement to Congress and the public. Tentatively, the following is suggested: As soon as the Department and the Canadian Government are agreed upon the best plan as a basis for negotiation we would discuss it, top secret, with the Secretaries of Commerce, National Defense, Treasury and, possibly, Agriculture. If support were forthcoming we would then take it up with the President, probably at Cabinet meeting.

The next step would be to discuss it, still emphasizing the necessity for secrecy, with a small number of Congressional leaders, possibly Vandenberg, Taft, Martin, Barkley and Rayburn. The vital significance from a strategic as well as economic standpoint would be stressed as well as the fact that the plan closely follows past Republican policy. We would try to work fast to keep ahead of leaks.

The Prime Minister would then visit the President and formally propose the negotiation of an agreement to eliminate trade barriers. The President would appoint a bi-partisan group to negotiate—possibly naming Dulles<sup>1</sup> to head the Delegation. Negotiations, based on a plan previously agreed upon in principle, would be brief and the results announced during May.

It may not be essential that the agreement be ratified at this session. An agreement along the lines outlined above is so important that it could hardly be ignored by either party platform. We believe that it would be endorsed by both.

With ratification virtually assured Canada could then proceed with her constitutional processes. Probably a general election would be required.

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<sup>1</sup> Presumably John Foster Dulles.



FW 611.422/10-2649

*The Canadian Ambassador (Wrong) to the Director of the Office of  
European Affairs (Hickerson)*

TOP SECRET AND PERSONAL

WASHINGTON, April 1st, 1948.

DEAR JACK: I told you yesterday morning that the Ministers concerned in Ottawa had decided that the Canadian Government was not in a position to take immediately a favourable decision on the economic proposals which have been developed in the exploratory and informal talks between Hector MacKinnon and John Deutsch<sup>1</sup> on our side and Willoughby<sup>2</sup> and some others on yours. They, therefore, consider that the official talks should be suspended for the time being. I have now received a fuller report of the views of the Ministers, which I am passing to you in this personal and informal way because of the extreme secrecy which surrounds the economic talks and the other discussions in which we have been engaged.

The Ministers did not make the decision to suspend the talks without a full understanding of the economic and general importance to Canada of the proposed arrangements. Trade arrangements between the two countries along the lines that had been discussed had, in their view, great attractions and many advantages, especially in the light of the delays and difficulties encountered in the restoration of the trade between Canada and Europe to anything like the pre-war pattern. There is no disposition to underestimate the importance of the United States market for Canada and the desirability of removing as fully as possible barriers in the way of trade between Canada and the United States. Indeed, the fullest development of this trade may be the only firm foundation for Canadian economic stability and prosperity. Nevertheless, to decide in such a short space of time a matter of such fundamental importance would be difficult in any circumstance, and is especially difficult in present circumstances. There must, of course, be adequate time for the preparatory educational work which would be required, since otherwise uncertainty, confusion and misunderstanding of the real purpose of the proposals would follow.

There is another reason why it would be difficult to meet the timetable involved if a decision to go ahead were now made. It is probable that the proposal for a security pact for the North Atlantic area<sup>3</sup> may be made public within a few weeks. This is a matter of such great

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<sup>1</sup> Hector MacKinnon, Canadian Tariff Board Chairman, and John Deutsch, Director of Economic Relations in the Canadian Department of Finance.

<sup>2</sup> Woodbury Willoughby.

<sup>3</sup> For documentation on development of a North Atlantic Treaty Organization, see vol. III, pp. 1 ff.

importance in relation to the present international situation, which will arouse so much attention and discussion in Canada as well as in the United States, that to confront the Canadian people at the same time with this issue and with the problems involved in the proposed economic arrangements would be of doubtful wisdom from the point of view of obtaining both objectives with a minimum of controversy. It is believed, therefore, that at the moment the energy and attention of the Canadian Government should be concentrated on the problems involved in the security pact and on the necessity of rallying Parliament and the public wholeheartedly around that pact and the policy which it embodies.

There is no disposition in Ottawa, however, to forget for a moment the importance of the trade relationships between Canada and the United States and the necessity for continuing to work towards the freest possible trade between the two countries along the lines already begun. In this connection it is thought that trade discussions might begin again if and when a satisfactory North Atlantic Security Pact is signed. It would be natural for the trade discussions to be related to the pact, since they are concerned with measures for economic defence against aggression. It might also turn out to be desirable later to add the United Kingdom to such discussions. If, in fact, the discussions could be somewhat widened in this way, it would remove one of the political obstacles to bi-lateral arrangements at the present time for free trade between the two countries.

I should like to emphasize to you that they are very much aware in Ottawa of the importance of the work that has been done and of the desirability of continuing that work at the earliest possible opportunity. That opportunity might be provided by the signature of the North Atlantic Pact.

Yours sincerely,

HUME

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611.4231/4-2748

*Memorandum of Conversation, by C. Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs*

TOP SECRET

[WASHINGTON,] April 27, 1948.

Subject: Removal of Trade Barriers between the United States and Canada

Mr. C. D. Howe, Canadian Minister of Trade and Commerce, and Ambassador Hume Wrong came in to discuss with Mr. Lovett the project for removal of trade barriers between the United States and Canada to which considerable study has been given during recent months. After stating that discussion of the project in terms of a

customs union was unfortunate and would make difficulties on the Canadian side because of the connotation of the word "union" and that it should rather be put as a project to remove duties on a reciprocal basis between the two countries, Mr. Howe went on to say that he felt it would be impossible from their standpoint to proceed immediately with this project. The Prime Minister would be retiring in August and there would be an election in the spring of 1949. The best procedure, Mr. Howe felt, would be to put a plank in the party platform advocating not merely the reduction, but the complete removal of import duties on trade with other countries, provided this could be accomplished on a reciprocal basis in each case. This proposal would not be confined to trade with the United States. This subject would then be discussed and debated in the electoral campaign and, depending upon the reaction of public opinion, the plan could be pressed forward thereafter. For one thing, he said, it would be clear under the plan proposed that the United Kingdom would be included in the proposal, which would silence those who might criticize the proposal as an attempt at destruction of the ties that bound the empire together.

Mr. Lovett referred to the coming election in this country and stated he felt the time-table proposed by Mr. Howe would fit in quite well with our situation. In January, he said, we would have a new Congress and perhaps the political situation would be somewhat clearer and more settled. All agreed that an additional reason why the proposed time-table might be a good one was that it might follow naturally from any progress made in arranging for support of the Western European Union in that it would be a natural extension of such closer cooperation into the economic sphere.

It was pointed out that there had been a considerable amount of work done in studying the implications and probable results of such a move, as they would affect the main items of trade between the two countries, and that it seemed possible to the experts on both sides that the project could be successfully worked out. It was concluded that the time-tables suggested by Mr. Howe seemed reasonable and right.

[Here follows a closing paragraph on possible withdrawal of subpoenas issued by the United States Attorney General's Office against certain Canadian newsprint companies.]

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#### THE CANOL PROJECT: FINAL DISPOSITION OF THE PROJECT'S FACILITIES IN CANADA FOR OIL PRODUCTION, REFINING, AND DISTRIBUTION

##### *Editorial Note*

The Canol Project was initiated in 1942 to obtain oil from the Mackenzie River field at Norman Wells to meet critical military needs



in northwest Canada and Alaska. Supplementary projects of pipeline construction followed. Oil production and refining were discontinued on June 30, 1945. Subsequent disposition of the facilities was complicated by variation in disposal provisions of the several project agreements.

For a brief summary of the background and implementation of the Project, with bibliography and citations to formal agreements, see Stanley W. Dziuban, *Military Relations between the United States and Canada 1939-1945*, in the official Army history *United States Army in World War II: Special Studies* (Washington, Government Printing Office, 1959), pages 228-235. In the same volume, see pages 331-334 for a summary of arrangements for disposal of the Canol Project facilities between April 1944 and December 1948.

Citations to the formal agreements also appear in *Foreign Relations*, 1942, volume I, pages 590-591; 1943, volume III, page 128; 1944, volume III, page 214; and 1945, volume VI, page 248. Documentation on United States involvement in oil production and distribution facilities in Canada prior to 1950 is in Department of State file 842.6363.

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**AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING THE TRANSFER OF DEFENSE INSTALLATIONS AND EQUIPMENT, EXTENDING AND MODIFYING THE AGREEMENT OF MARCH 30, 1946**

[For text of Agreement, effected by exchange of notes signed at Ottawa January 24 and March 2, 1948, and for supplementary exchange of notes signed at Ottawa April 9 and 14, 1948, see Department of State Treaties and Other International Acts Series No. 1981, or 62 Stat. (pt. 3) 3912.]

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**AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING THE OPERATION AND MAINTENANCE OF A LAND LINE COMMUNICATION SYSTEM BETWEEN EDMONTON, ALBERTA, AND FAIRBANKS, ALASKA**

[For text of Agreement, effected by exchange of notes signed at Washington March 1 and 31, 1948, see Department of State Treaties and Other International Acts Series No. 1966, or 62 Stat. (pt. 3) 3883.]

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**AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING CONTROL OF EXPORTS OF POTATOES FROM CANADA TO THE UNITED STATES**

[For text of Agreement, effected by exchange of notes signed at Washington November 23, 1948, see Department of State Treaties

and Other International Acts Series No. 1896, or 62 Stat. (pt. 3) 3717.]

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**AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING SANITARY PRACTICES IN THE SHELLFISH INDUSTRIES**

[For text of Agreement, effected by exchange of notes signed at Washington March 4 and April 30, 1948, see Department of State Treaties and Other International Acts Series No. 1747, or 62 Stat. (pt. 2) 1898.]

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**ARRANGEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING ENGINEERING STANDARDS APPLICABLE TO THE ALLOCATION OF STANDARD BROADCASTING STATIONS (540-1600 KCS.)**

[For text of Arrangement, effected by exchange of notes signed at Washington December 24, 1947, and April 1, 1948, see Department of State Treaties and Other International Acts Series No. 1802, or 62 Stat. (pt. 3) 2652.]

## CHILE

### POSITION OF THE UNITED STATES WITH RESPECT TO THE ECONOMIC DEVELOPMENT OF CHILE<sup>1</sup>

825.51 Bondholders/1-1548

*Memorandum of Conversation, by the Chief of the Division of North  
and West Coast Affairs (Mills)*

CONFIDENTIAL

[WASHINGTON,] January 15, 1948.

Participants: Señor Felix Nieto del Rio, Chilean Ambassador  
Mr. Armour, Assistant Secretary of State  
Mr. C. Tyler Wood, Deputy to the Assistant Secretary  
for Economic Affairs  
Mr. Mills, Chief of NWC

The Chilean Ambassador opened his visit with Mr. Armour by stating he had good news, namely that as a companion accomplishment to reaching agreement with the American Bondholders' Protective Council, agreement had also been reached with the British and the Swiss bondholders. He said the British were not pleased with Mr. Rogers<sup>2</sup> of the American Council since they considered he had been "too soft" in dealing with the Chileans. An announcement of the agreement, the Ambassador added, will be made shortly in Chile to be followed by an announcement in the United States. He observed that the agreements would have to be submitted to the Chilean Congress for ratification but he considered the prospects for ratification good.

Almost with indifference the Ambassador mentioned that Señor Roberto Vergara<sup>3</sup> was negotiating with the International Bank for a loan to Chile. He added that the Bank had suggested certain provisions regarding guarantees for such a loan which Chile could not accept. When pressed for details he said one unacceptable provision was that dollars from copper, nitrate and iodine production would be pledged to loan service. He did not make clear whether the proposal was to pledge all dollar proceeds accruing to Chile from the export of the three products, or merely the dollars accruing to Chile from taxation of exports of these products. Mr. Mills asked whether the latter

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<sup>1</sup> For previous documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 527 ff.

<sup>2</sup> James Grafton Rogers, Chairman, Foreign Bondholders Protective Council.

<sup>3</sup> Representative of the Chilean Corporación de Fomento de la Producción.



dollar proceeds were not already pledged under a law of the early 1930's, Law No. 5107 he believed to be the number. The Ambassador said that such was not the case since the law in question merely turned over copper, nitrate and iodine tax dollars to the Amortization Institute without any guarantee to the foreign bondholders they would be used exclusively for foreign debt service. The International Bank wished a mortgage on such dollar income and Chile could not give that.

The Ambassador gave the impression he is not greatly worried over the present status of negotiations with the International Bank. In fact he stated he was optimistic that Chile might obtain a loan which would finance certain specific projects requiring perhaps \$10 millions or \$12 millions as compared with its request for \$40 millions.

Roberto Vergara in a state of great excitement had spoken with Mr. Ness, Director of OFD,<sup>4</sup> on January 13 regarding his meeting with officials of the International Bank the previous day. His agitation resulted in consultations in the Department and by telephone with Mr. McCloy<sup>5</sup> of the Bank by Mr. Lovett<sup>6</sup> and Mr. Armour. Mr. McCloy told Mr. Armour that:

(1) In the proposed agreement there was a provision that if at any future time the Chileans pledged any of their revenue, they will pledge it on old bonds (including, presumably those covering the proposed loan from the Bank) prior to pledging them to any other use.

(2) The Bank does not want any prior position but it does not wish anyone else to have a prior position.

(3) The Bank fears there may already be a prior lien on Chilean dollar revenues as, for example, in a letter to Eximbank from a former Chilean Ambassador which in a cloudy way states the revenues of Chile are behind an Eximbank loan.

(4) If the Chileans only would keep quiet for awhile the Bank might be able to work out something.

(5) The proposed loan to Chile is doubtful, the Chilean situation is "messy," and steps taken so far have not yet gotten them out of the woods; the report of the International Bank mission to Chile was gloomy.

(6) The Chileans should aim at loans for specific projects for say \$5 millions or \$10 millions but the Chilean financial situation is so poor the Bank cannot make a loan until it is cleared up.

Both Mr. Armour and Mr. Wood tried to find out from the Ambassador whether any "prior lien" had been given by the Chileans to the

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<sup>4</sup> Norman T. Ness, Director, Office of Financial and Development Policy.

<sup>5</sup> John J. McCloy, President, International Bank for Reconstruction and Development.

<sup>6</sup> Robert A. Lovett, Under Secretary of State.

Bondholders' Council, or Eximbank. The Ambassador was, or pretended to be, uninformed but thought not. He said Señor Roberto Vergara knew the details and he would have him contact Mr. Wood, and Mr. Mills, next time he is in Washington.

In view of Mr. Armour's conversation with Mr. McCloy of the Bank, the Ambassador's optimism appeared to be scarcely justified. The question is whether he is as naive as he appears to be on this subject or whether, being very canny, he realizes that success with the International Bank demands that the Chileans keep quiet for the time being while the Bank works out something, as suggested by Mr. McCloy (numbered point (4), above).

After the departure of the Ambassador, Mr. Armour indicated that in view of the unjustified optimism of the Ambassador he felt the Department should pursue the matter further with Mr. McCloy. He instructed Mr. Mills to consult Mr. Ness as to what should be the next step of the Department vis-à-vis Mr. McCloy and the Bank.

Mr. Wood inclined to the view that since the Chilean Ambassador had not complained, perhaps the Department need not take any further action.

Mr. Mills was of the opinion that the lack of complaint on the part of the Ambassador must be due to a misinterpretation on his part of the attitude of Mr. McCloy. The Ambassador had stated that McCloy had told the Chilean Director of the Bank, Señor Fernando Illanes, he did not approve the drafting of the proposed controversial clause. He said that Señor Fernando Illanes had replied that Chile could not accept its substance. From this the Ambassador concluded that Mr. McCloy did not like the clause. Later in the day Señor Mario Illanes, Commercial Counselor of the Chilean Embassy and cousin of the Chilean Director of the Bank, telephoned to say that the Ambassador wished to clear up any wrong impression he may have given Mr. Armour; he had learned that Mr. McCloy had not drafted the clause in question but it had been written by the legal department of the Bank. The Ambassador had not given such an impression, but just the reverse. Señor Mario Illanes, in reply to questions, added that this morning (January 15th) Mr. McCloy again had told his cousin he did not like the wording of the clause in question. To jump to the conclusion that Mr. McCloy is opposed to the aim of the clause, as the Chilean Ambassador apparently has done, appears to be unjustified unless Mr. McCloy has changed his position since his telephone conversations with Mr. Lovett and Mr. Armour yesterday (January 14).

825.51/1-1548

*Memorandum of Conversation, by the Chief of the Division of North  
and West Coast Affairs (Mills)*

[WASHINGTON,] January 15, 1948.

Participants: Señor Felix Nieto del Rio, Chilean Ambassador  
Mr. Armour, Assistant Secretary of State  
Mr. C. Tyler Wood, Deputy to Assistant Secretary of  
State for Economic Affairs  
Mr. Mills, Chief of NWC

The Chilean Ambassador stated that Mr. Mardones of the Chilean Nitrate Sales Corporation, who is now in Washington, may raise with the Eximbank the question of a loan to Chile of from \$20 millions to \$22 millions<sup>1</sup> for the purpose of increasing Chilean nitrate output beyond the present 1,500,000 tons per year. He said it has been estimated that construction needed would take 20 months and would involve improving the port facilities of Tocopilla.

He asked the reaction of Mr. Wood who said before expressing an opinion he would wish to study detailed plans. He added that in view of the great shortage of nitrates some of the European countries were planning to reconstruct their factories and the question of an eventual surplus should not be ignored.

The Ambassador said one consideration is that new facilities would permit the abandonment of high cost Shanks process plants putting Chile in a position to compete when the present abnormal demand subsides.

Mr. Mills asked if the proposal had been discussed with Guggenheim representatives, owners of the Pedro de Valdivia and Maria Elena plants. The Ambassador replied that all the nitrate interests of Chile were together on the project.

Mr. Mills also asked whether anything had occurred with respect to proposals to increase Chile's copper production. The Ambassador pointed out that the Chilean Congress had eliminated the emergency 20 percent export tax on copper from the new budget, and this action should reassure the copper companies regarding the attitude of the Chilean Government.

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<sup>1</sup> An analysis, dated April 9, not printed, of a report of the Export-Import Bank covering the six-month period ending December 31, 1947, indicated that of the \$206,731,000 of undisbursed authorizations of the Bank for Latin America, Chile's share was \$43,622,000 (811.516 Export-Import Bank/4-948).



825.51/1-2948

*Memorandum of Conversation, by the Acting Chief of the Division of North and West Coast Affairs (Espy)*

[WASHINGTON,] January 29, 1948.

Participants: Señor Don Felix Nieto del Rio, Chilean Ambassador  
Señor Don Roberto Vergara, Head of Fomento Corporation New York Office  
Mr. Norman Armour, Assistant Secretary of State  
Mr. Paul C. Daniels, Director of ARA  
American Ambassador William D. Pawley <sup>1</sup>  
Mr. James Espy, Acting Chief of NWC

The Chilean Ambassador, accompanied by Señor Vergara of the Fomento Corporation, called on Mr. Armour this morning and a number of subjects were discussed at this meeting. Señor Vergara said he was very happy to inform Mr. Armour that he had had most successful conversations with Mr. Rogers, Chairman of the Foreign Bondholders' Protective Council, and that there had been worked out the final details of the Chilean debt settlement plan. The proposed plan is being submitted to the British and Swiss as well and as soon as their approval is received it will be made public. Señor Vergara said he had hoped this could be done on Monday of next week but there may be some delay in order to give time for word to be received from the British and Swiss.

Señor Vergara and the Chilean Ambassador then both brought up the subject of discussions which were proceeding with the World Bank concerning a loan, and with the International Monetary Fund on the subject of exchange control. They expressed their distress over the impasse that had arrived in these negotiations which came from what they considered impossible demands by the two organizations. Señor Vergara stated that several weeks ago the World Bank had made the demand that Chile deposit in an American bank in dollars all the revenue obtained from the sale of Chilean copper and nitrates which would be pledged to service of the requested loan from the World Bank. Moreover, this demand further included a provision that Chile could make no future loans without the consent of the Bank. Señor Vergara said that he informed the Bank that this demand was absolutely impossible and if the Bank persisted in it the negotiations would have to be terminated.

Señor Vergara said that there was another difficulty in the insistence of the Monetary Fund that Chile's exchange rate be set at once and

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<sup>1</sup> Ambassador to Brazil.

the present complexities in Chile's foreign exchange operations be terminated. Señor Vergara said Chile had no such plan as that of France which provides different exchange rates but that it would take time to eliminate the present free market rate and have only one rate for the country. Señor Vergara understood that possibly the Fund might allow Chile a six-month period of time to effect the desired action, but that Chile needed a whole year to do so. The Chilean Ambassador and Señor Vergara sought the good offices of the Department to intercede with the American members of the Fund and the Bank in these matters.

Both the Chilean Ambassador and Señor Vergara next took up the great need of Chile for a loan from the World Bank. They said that the plan for the settlement for the foreign debt, the stabilization of Chile's currency and the setting in order of Chile's economic affairs were all tied up together and unless they could get everything done at once, including the obtaining of a loan from the World Bank, their difficult problems could not be resolved and they would be left in the same mess in which they have been for the last seven or eight years. Señor Vergara pointed out that for the first time Chile was making a determined effort to put its economic house in order and he was confident that if this opportunity could be fully grasped the job would be well done. He believed that others had confidence in Chile's efforts and he mentioned, as an example, the fact that yesterday the Anaconda Copper Company and the Kennecott Copper Company agreed each to invest a million dollars in the new Chilean steel mill. Señor Vergara said that the steel mill would be operated privately rather than as a national industry. Señor Vergara also pointed out that the Anaconda Copper Company would soon have to invest a sum between \$30 and \$50 million in the Chuquicamata mines to change over its smelting process there. Also the nitrate interests were endeavoring to obtain large loans in this country partly from private sources and partly from the Export-Import Bank to increase their production of nitrates.

As a further subject, Señor Vergara brought up the desire of the Chilean Fomento Corporation to obtain loans from the Export-Import Bank for pipe and a refinery for the Springhill Petroleum Fields in Tierra del Fuego. Besides this, the Corporation wished to buy from the United States Maritime Commission a T-2 tanker. With respect to the latter request, Mr. Armour mentioned that this was a very difficult matter since tankers were so scarce at the present time.

The meeting was concluded with remarks by Ambassador Pawley on the desirability from every practical angle of petroleum resources being developed by private capital and enterprise rather than by government monopolies.

825.51/2-448

*Memorandum of Conversation, by Mr. Edgar L. McGinnis, Division  
of North and West Coast Affairs*

[WASHINGTON,] February 4, 1948.

Participants: Señor Don Felix Nieto del Rio, Chilean Ambassador  
Señor Don Roberto Vergara, Head of the New York  
Office of the Fomento Corporation  
Mr. Paul Daniels, Director of ARA  
Mr. James Espy, Acting Chief of NWC  
Mr. James Webb, Jr., NWC  
Mr. Edgar McGinnis, Jr., NWC

The Chilean Ambassador, accompanied by Mr. Roberto Vergara, called upon Mr. Daniels today to discuss various matters of mutual interest. At the close of the conversation Mr. Vergara asked Mr. Daniels what the Department's attitude would be toward an application by Chile to the Export-Import Bank for a loan to finance the construction of a petroleum refinery. In reply Mr. Daniels said that he was very definitely of the opinion that this Government could not favorably consider such a loan to Chile at this time. He said that this Government could not justify such a loan to American business interests and to the U.S. Congress in the present state of public opinion towards foreign petroleum development. Mr. Daniels indicated that the matter was one of considerable political delicacy and that he could foresee no possibility of the Chileans obtaining a loan for this purpose at the present time.

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825.51/3-148

*Memorandum of Conversation, by Mr. Edgar L. McGinnis, Division  
of North and West Coast Affairs*

[WASHINGTON,] March 1, 1948.

Participants: Mr. Cussen, Vice President, Compañía Chilena de  
Electricidad  
Mr. Espy, Acting Chief of NWC  
Mr. Webb, NWC  
Mr. McGinnis, NWC

Mr. Cussen stated that he desired to furnish further information regarding the proposed financing of the expansion of the properties of the Compañía Chilena de Electricidad in Chile. He referred in this connection to his visit to see Mr. Armour on February 17 in the company of Mr. MacKenzie and Mr. Stafford.



Mr. Cussen indicated that he had recently been conferring with Mr. Vergara of the Fomento Corporation and with officials of the International Bank. He stated that it had been decided that the Fomento Corporation would apply for an \$11,000,000 loan which would be used for financing the dollar equipment purchases of his company. This loan application would be separate from the pending application by Fomento for \$8,000,000 for expansion of Endesa<sup>1</sup> properties. He said that Mr. Vergara would use his own judgment as to when the \$11,000,000 application would be presented, but that probably it would be deferred until Fomento's \$8,000,000 application was out of the way.

Mr. Cussen explained that the loan application depended upon an agreement between his Company and the Chilean Government regarding the expansion plans of the Compañía Chilena de Electricidad. These plans, as had been brought out previously, involved the expenditure by South American Power Company (parent company of Chileña de Electricidad) of \$25,000,000 over the next five years. However, before this investment is made, Mr. Cussen said that agreement would have to be reached whereby the Chilean Government would guarantee his firm remunerative rates for power and sufficient foreign exchange to meet its obligations for amortization, interest and dividend payments. He said that this agreement had not yet been worked out, but this point would have to be settled before the new investment would be undertaken.

Mr. Cussen repeated that he desired to bring this matter to the Department's attention for purposes of information only, and that his visit did not involve any request for assistance.

In discussing equitable rates Mr. Cussen disclosed that his firm had currently under litigation its contract with the Chilean State Railways. He asserted that the Railways were paying for power from his Company at a ridiculously low rate under a 1921 contract and that consequently his Company was endeavoring to have the matter rectified through legal action. Payments by the Railways for power were considerably below costs of production, Mr. Cussen said. In this connection Mr. Cussen also brought out that the Santiago Street Railways had not paid his Company anything for power consumed since 1945. In conclusion, Mr. Cussen referred to the option held by the Chilean Government to purchase his Company's properties before 1950 for about \$52,000,000 (subject to adjustment for depreciation, etc.). The option was made in 1945 for a five-year period. Mr. Cussen stated that his Company's properties were valued at that time at about \$74,000,000. While Mr. Cussen did not definitely so state, it appears that he may be apprehensive that the Chilean Government might exercise this option if his Company does not proceed with its expansion program.

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<sup>1</sup> Chilean Government's hydroelectric power system.

Mr. Espy thanked Mr. Cussen for his courtesy in keeping the Department informed in this matter and said that the International Bank would doubtless consider Fomento's loan applications in the light of Chile's overall requirements and her ability to repay in dollars.

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825.51 Bondholders/3-1048

*Memorandum of Conversation, by the Acting Chief of the Division of North and West Coast Affairs (Espy)*

[WASHINGTON,] March 10, 1948.

Participants: Ambassador Flack

FN—Mr. Corliss

NWC—Mr. Johnson, Mr. Espy

Mr. James Grafton Rogers, Chairman of Foreign Bondholders Council

During the course of his call on NWC today Mr. Rogers mentioned the negotiations for the settlement of the Chilean dollar indebtedness. He said that over a month ago all points and provisions in a settlement agreement had been reached with the sole exception of the maturity date of the new refunding bonds. This one point had still not been agreed upon and it was not known how long it would take to resolve it. He explained that the point seemed to be of a minor and insignificant importance but that it was not such in the considered opinion of the American financial centers. In fine, the Chilean Government (Sr. Alexandri [*Alessandri*])<sup>1</sup> desired that the length of the maturity of the bonds be something over 50 years in order that the payments annually on the principal of the bonds be sufficient to amortize them by the date of the maturity. Mr. Rogers and the Foreign Bondholders Council were insisting that the maturity of the bonds be no greater than 36 years. Originally a period of 30 years had been set but this was increased by 6 additional years in an effort to meet the Chilean desire. It was recognized that the annual payments on the principal, provided for under the agreement, would not be sufficient to meet the entire amount of the principal within 36 years, and the residue would have to be refinanced by new bonds at the end of that time.

Mr. Rogers said that it was difficult to explain but that all the financial experts from whom he had sought advice had declared that foreign bonds on the United States market of over a 30 year maturity period are severely discounted. Accordingly if the period of the bonds exceeded this length of time, Chilean credit in the United States'

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<sup>1</sup> Jorge Alessandri, Minister of Finance.

financial markets would not receive the confidence that was deemed essential for a satisfactory settlement of the Chilean bonded indebtedness. Mr. Rogers felt that this situation would in turn result in a financial loss of a number of million dollars to Chile on the total settlement of the debt.

Mr. Rogers gave no indication of when or how this impasse would be resolved.

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825.6374/3-1148

*The Secretary of State to the Chilean Ambassador (Nieto del Rio)*

The Secretary of State presents his compliments to His Excellency the Ambassador of Chile and has the honor to refer to the Department's note of January 2, 1947 <sup>1</sup> in which assurances were furnished of this Government's willingness to consult with the Government of Chile with respect to the disposal of this Government's remaining synthetic ammonia plants, of which no disposition has as yet been made.

The Department is informed by the War Assets Administration that the latter agency now has under active consideration a proposal for the purchase from the War Assets Administration of the Jayhawk Ordnance Works by the present lessee, the Spencer Chemical Company. The price offered by the latter company is \$9,500,000. The foregoing information has been transmitted verbally by an official of the Department to Mr. Mario Illanes, Commercial Counselor of the Embassy.

The War Assets Administration has been requested by the Department to make available to representatives of the Government of Chile upon request further information concerning the proposed disposal.

The Department will undertake to transmit to the Embassy a copy of the agreed terms of disposal, as soon as they may be available from the War Assets Administration, for examination by representatives of the Embassy. Following receipt of the aforementioned terms of disposal, and prior to final disposal of the equipment in question, the Department will be pleased to arrange consultations between Chilean officials and appropriate officials of this Government, should the Ambassador consider such consultations desirable.

WASHINGTON, March 11, 1948.

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<sup>1</sup> Not printed.



825.51/3-1648

*The Ambassador in Chile (Bowers) to the Secretary of State*

CONFIDENTIAL

SANTIAGO, March 16, 1948.

No. 187

Subject: Impasse in Chilean foreign debt negotiations

The Ambassador has the honor to refer to his confidential telegram No. 162 of March 16, 1948 on the above subject and to transmit herewith a copy and a translation of the confidential memorandum <sup>1</sup> sent to the Minister of Foreign Affairs <sup>2</sup> by the Minister of Finance.

The Foreign Minister, in discussing this matter with the Counselor of Embassy, <sup>3</sup> stressed the fact that it would be difficult to obtain approval by the Chilean Congress of a maximum redemption period of less than 46 years. As the Minister of Finance pointed out in his memorandum, establishment of a maximum period of 36 years as requested by the Bondholders Protective Council could result in an imposition on Chile of terms of payment greater than the 4 per cent per annum actually agreed upon.

The Chilean Minister also stated that conditions were especially propitious at this time for securing congressional approval, a condition which had not existed in the immediate past. He asked, therefore, that every effort be made to arrive at an agreement which could be submitted promptly to the Chilean Congress.

Considering the shortage of dollar exchange in Chile at the present time, the large amounts of dollars which are required for foreign debt service and other foreign obligations of the Government, and the strenuous efforts being made by the Government of Chile to live within its foreign exchange income, the Embassy respectfully recommends that every effort be made to secure an acceptable long term agreement for the service and amortization of Chile's external debt.<sup>4</sup>

[BOWERS]

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<sup>1</sup> Neither printed.

<sup>2</sup> Germán Vergara Donoso.

<sup>3</sup> Edward G. Trueblood.

<sup>4</sup> In telegram 83 of March 19, 1948, 7 p. m., not printed, the Acting Secretary of State advised the Embassy in Santiago that the President of the Foreign Bondholders Protective Council had indicated acceptance of the Chilean position on debt extension (825.51/3-1648). In telegram 198, March 24, not printed, Ambassador Bowers indicated Chilean acceptance of the debt settlement (825.51 Bondholders/3-2448).

811.659/3-1748

*The Secretary of State to the Chilean Ambassador (Nieto del Rio)*

The Secretary of State presents his compliments to His Excellency the Ambassador of Chile and has the honor to acknowledge the receipt

of the latter's note No. 649/51 of March 17, 1948,<sup>1</sup> setting forth the views of the Chilean Government concerning the terms of disposal of the Ozark Ordnance Works.

This Government has considered the view of the Chilean Government, and has reviewed carefully the pertinent data relative thereto. In this regard, the attention of the Ambassador is invited to the fact that the sum of \$10,500,000 does not represent the total cost of the plant to the purchaser. The Department of State is advised by the War Assets Administration that the Lion Oil Company has expended more than \$1,000,000 of its own funds to install graining facilities at the plant. Although the addition of the latter figure leaves the total cost of the purchase still below the figure regarded as the commercial value by the technical advisers of the Government of Chile, it does illustrate the many variables which complicate the calculations related to this entire subject, and which would have to be taken into full consideration in determining whether the terms of disposal are such as to create unfair competition.

The Ambassador will recall that the Secretary of State's letter of March 5, 1945<sup>2</sup> said in essence that this Government would give due consideration to the effects upon Chile of the sale or lease of the plants, while at the same time protecting the interests of the United States Government. This Government has clearly and consistently declined from the outset, however, to agree that the letter of March 5, 1945 committed this Government to undertake a guarantee of the "effective security of the Chilean nitrate industry". The views of the United States Government on this question were reiterated by the then Assistant Secretary of State W. L. Clayton at a meeting with the Ambassador of Chile on July 26, 1946.

As regards the interests of the United States Government in connection with disposal of the plants under consideration, the objectives of the Surplus Property Act<sup>3</sup> require, among other things, that the War Assets Administration obtain for the United States Government, as nearly as possible, the fair value of surplus property, for the benefit of domestic taxpayers and to avoid creating unfair competition. This Government considers that the present period of very high demand for nitrogenous fertilizers is a favorable one for the sale of surplus synthetic ammonia plants, that the disposal terms of the Ozark plant are the best obtainable under existing circumstances, and that they do not constitute a subsidy to the buyer or give the latter unfair advantages over competitors. In the considered view of this Government, deferred disposal of these plants would be likely to involve terms less favorable from its standpoint.

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<sup>1</sup> Not printed.

<sup>2</sup> *Foreign Relations*, 1945, vol. ix, p. 795.

<sup>3</sup> 58 Stat. 765, approved October 3, 1944.

The Embassy's note under reference asserts that the sale of the Ozark plant is a typical instance of a transaction which in the near future may create serious problems affecting the Chilean nitrate industry. The apprehension is expressed that the time may soon arrive when world overproduction of nitrogen is a reality. To the extent that this apprehension on the part of the Chilean Government may be borne out by the course of events, deferred disposal of the remaining surplus ammonia plants would appear more likely to involve terms less favorable from the standpoint of the Chilean Government than the present terms. Clearly, therefore, the interests of the two Governments in this connection are parallel.

With further reference to future prospects for the Chilean nitrate industry, it is understood that notwithstanding the apprehension expressed in the Embassy's note under reference, officials of the industry are contemplating steps in the direction of expanding production facilities with an appreciable increase in output. This would appear to reflect a more optimistic attitude regarding the prospects of the Chilean nitrate industry than that expressed in the Embassy's note.

In view of the foregoing considerations, and of the fact that officials of the Chilean Government were invited for consultation before disposal of the plant was completed, it is considered that the spirit and the letter of this Government's statement of March 5, 1945 have been observed. The Secretary assures the Ambassador again that full and sympathetic consideration has been given to the views of the Chilean Government on this matter, and believes that the long course of friendly economic relations between the two countries is clear testimony to this Government's continued interest in the welfare of the Chilean economy.

WASHINGTON, May 13, 1948.

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811.516 Export-Import Bank/5-2548

*Memorandum by the Assistant Chief of the Division of Investment and Economic Development (Stenger) to the Director of the Office of Financial and Development Policy (Knapp)*

[WASHINGTON,] May 25, 1948.

Subject: Agenda for Meeting of Board of Directors Eximbank  
May 26, 1948.

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4. *Chile—Fomento Corporation.* On October 16, 1946 the Board authorized a credit of \$5,350,000 for the Chile Fomento Corporation to



assist in financing the purchase of U.S. equipment, materials and services for the following programs and in the amounts as indicated :

Power Program	\$800, 000
Copper Wire Plant	800, 000
Cement Plant	550, 000
Agricultural Machinery	3, 200, 000

Fomento has requested the transfer of \$400,000 from the Copper Wire Plant for allocation to the Power Program. Fomento claims that it will need only about one-half of the credit allocated to finance purchases for the Copper Wire Plant, because the plant is operating at a profit and its own funds have been used to purchase a considerable amount of equipment. They wish to increase the amount of the credit for the Power Program, because of increased prices and the need for additional equipment to complete the power projects.

Fomento has also requested that the expiry date of the credit be extended from June 20, 1948 to December 31, 1949, because of the delays in delivery of equipment.

The staff of the Bank recommends favorably; that the allocation of the Copper Wire Plant be reduced \$400,000 and the Power Program be increased by a like amount; and that the expiry date be extended to December 31, 1949.

*Recommendation:* The Department concurs with the staff in the approval of the request.

5. *Chile—Fomento Corporation.* On June 13, 1940 an agreement was signed between the Fomento Corporation of Chile and the Bank establishing a credit of \$12 million to finance the purchase of U.S. industrial products.<sup>1</sup> This agreement and several amendatory agreements stipulated that the credit should be serviced "prior to the servicing of any other obligations of Fomento heretofore and hereafter incurred", and that the dollar revenues resulting from the extraordinary taxes levied pursuant to Chilean Law No. 6334 should be set aside and utilized to the extent necessary to cover the payment of the obligations of Fomento issued under this agreement. Chilean Law No. 6334, and two subsequent laws which established the Fomento Corporation, imposed certain income taxes (including taxes on income of mining operations) for the purpose of financing the Fomento operations. Certain of these taxes have expired by law with the result that the lien created in favor of the Bank now applies principally to the tax on mining operations.

Fomento has now entered into an agreement with the International

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<sup>1</sup> For a note on this agreement, see *Foreign Relations*, 1940, vol. v, p. 684.

Bank for a credit of \$16 million and the agreement stipulates among other conditions that before becoming effective—

“The Borrowers and the Guarantor shall have obtained a waiver and release of any and all liens, charges, priorities, and preferences that have been created on any property, assets, revenues, or receipts of any of them in favor of the Export-Import Bank of Washington. Such waiver and release shall be in form and substance satisfactory to the Bank.”

In light of the above, Fomento has asked the Eximbank to waive its rights to a prior lien on the obligations of Fomento.

The staff of the Bank recommends favorable action on the grounds that the obligations of Fomento are unconditionally guaranteed by the Republic of Chile; that the granting of the credit by the International Bank will strengthen the economy of Chile and will increase the possible repayment of the Eximbank's obligations; and that the waiver will not materially prejudice the Eximbank's security position.

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825.51 Bondholders/7-948 : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*

SANTIAGO, July 9, 1948.

473. Chamber of Deputies last night approved law for resumption of service on foreign debt by vote 44 to 11. Law was previously approved by Senate on May 18 (reEmbgam A-241, May 20, 1948).<sup>1</sup> It is now ready for Presidential signature.<sup>2</sup>

BOWERS

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<sup>1</sup> Not printed.

<sup>2</sup> Ambassador Bowers in telegram 501, July 21, not printed, indicated that the President had signed the law (825.51 Bondholders/7-2148).

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811.516 Export-Import Bank/8-2048 : Telegram

*The Secretary of State to the Embassy in Chile*

CONFIDENTIAL

WASHINGTON, August 20, 1948—5 p. m.

317. Board Directors Eximbank Aug 18 considered application Fabrica Victoria de Puente Alto for credit \$2 million to finance purchases US equipment services for expansion of its plant in Chile for production and spinning rayon filament yarn and staple fibers. Eximbank concluded that credit \$1.2 million would be ample to meet company's needs and be a loan which company could repay without undue burden. Board approved credit this amount to be repaid in 5 years with interest 4½ percent. Credit to be covered by unconditional guar-

antee Bank Chile as to repayment principal and interest with satisfactory exchange assurances to be given by appropriate Chile Govt agency.

Board also approved request by Machine Affiliates Inc on behalf of group Amer machine tool and other manufacturers for credit to assist financing sale \$650,000 worth machine tools cranes and foundry equipment to Manufacturera de Metales (Mademsa). Purchasers to pay 25 percent cash and Amer exporters to participate in financing to extent another 25 percent. Eximbank to finance balance about \$375,000 to be repaid in about 3½ years with interest 4½ percent. Credit to be guaranteed by Bank Chile and dollar exchange to be assured by Govt Chile.

Dept refers to statement urtel 545 Aug 12<sup>1</sup> that "apparent past policy not make govt loans to private enterprises". This has never been policy Eximbank. Bank prepared at all times to consider on their merits applications from private enterprises. The facilities of Eximbank are open to US exporters to US importers and to foreign govts the agencies of foreign govts and foreign firms and nationals.

MARSHALL

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<sup>1</sup> Not printed.

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825.6374/10-1948

*Memorandum of Conversation, by Mr. Henry M. Pauley of the International Resources Division With Mr. Pedro Alvarez of the Chilean Embassy*

CONFIDENTIAL

[WASHINGTON,] October 19, 1948.

At the close of this morning's meeting of the Executive Committee, IEFC, I asked Mr. Alvarez of the Chilean Embassy how they had arrived at the figure of 89¢ per ton rental for the Cactus plant, given in their latest note to the Department, dated September 30, 1948. I explained to him that my reason for asking was that it appeared to us on the U.S. side that the correct figure was \$8.90 per ton rather than 89¢ and that, accordingly, the Chileans may have made an error in a decimal point in their calculations. Mr. Alvarez was not familiar with the method of their computation, but said he would check it and let us know in a day or so how they arrived at the 89¢ figure.

He then launched into a polite, but firm, attack upon the handling of the commitment of March 5, 1945<sup>1</sup> by the United States. He said that the Chilean Government sincerely felt that when they had obtained this commitment they "had something", and they consequently were disappointed over the last few years when the actual handling

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<sup>1</sup> *Foreign Relations*, 1945, vol. ix, p. 795.



of the disposals gave them an opportunity to do not much more than engage with us in an exchange of formal notes, most of which were on technical points. I asked him specifically what had been wrong in our handling of the commitment, and he said there was nothing he could put his finger on as being wrong, but that somehow, in a vague sort of way, he sensed that there was a "gap" or a "missing link", as he put it, in our way of handling the commitment. He said further that Under Secretary Welles and Secretary Hull had promised the Chilean Ambassador, in meetings at which he (Alvarez) was present, "effective protection for the Chilean industry against the postwar utilization of the wartime munitions plants." When I asked him specifically what form the "effective protection" for the Chilean industry was to take, he could give no answer.

A point which Mr. Alvarez emphasized was that the Communists down in Chile could say now and in the near future that the U.S. had promised protection for the Chilean nitrate industry in disposing of wartime ammonia plants, but that in the actual disposals we had failed to live up to our promises. He said he would like to see the record of the American-Chilean relations cleared of this blemish, and that we could erase this blemish, or fill in the gap, he hinted very broadly, possibly by granting Chile a loan through the Ex-Im Bank for the expansion of their nitrate industry using the Solar Evaporation Process.

I told Mr. Alvarez that I felt that there was no gap in our handling of the commitment, and, further, that I understood that the expansion of the Chilean nitrate industry was being financed with private capital. He agreed to the latter point, saying that about a year ago they had considered applying to the Ex-Im Bank for a loan, but had finally decided instead to use their own money. I expressed no view as to the prospect of their getting a loan, except to say that Ex-Im and the Department would undoubtedly be glad to consider such a loan on its own merits.

It was exceedingly difficult to get from Mr. Alvarez what the "missing link" was, or where the "gap" existed in our handling of the March 1945 commitment. After considerable prodding and suggesting on my part, he finally admitted that what Chile really had wanted under this commitment was to have a voice in the determination of the sales or rental figures on each wartime ammonia plant when it was put up for disposal. I told him that under the conditions laid down by Congress regarding disposals of wartime surpluses, such an arrangement between our two Governments would have been impossible.

Mr. Alvarez emphasized that all the foregoing was presented by him strictly in an unofficial capacity, and that there was nothing formal or official about what he was saying. While he was very outspoken in

expressing his views about our handling of the commitment, I believe he realized that his request for a voice in determining rentals or sales prices was not at all practical. Undoubtedly, he was groping for information on the prospects of a loan.

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825.51/11-3048

*Memorandum from Mr. Edgar L. McGinnis of the Division of North and West Coast Affairs to the Chief of That Division (Mills) and to Mr. Bainbridge C. Davis of That Division*

[WASHINGTON,] November 30, 1948.

In an excellent and comprehensive report (No. 315 dated Nov. 3<sup>1</sup>) the Embassy at Santiago summarizes the Chilean Minister of Finance's October 27 report to Congress on the fiscal situation. The report gives considerable ground for optimism and indicates that Chile has made substantial gains in putting its fiscal house in order. The Finance Minister's report makes the following principal points:

1. Government receipts and expenditures will be balanced during the current fiscal and calendar year at 12,328 million pesos.

a) There has been almost no resort to borrowing nor creation of new money for budget needs; on the contrary, substantial Fomento investments in housing, public works, etc., are included in the budget.

b) Allowance is already made for current cost of living bonus for public employees and budget includes substantial payments on various arrears.

2. Treasury cash position is comparatively sound with a net current and cash surplus of 1,200 million pesos.

3. 1949 income and expenditures indicate a surplus of income of 770 million pesos.

4. Public debt service was maintained and debt reduction amounted to 620 million pesos during the fiscal year.

5. Amortization on privately held short term external debt (\$4,945,000 and 2,009,000 pounds on 12-31-47) increased from 2½ to 5% annually.

6. Cost of living increased at a much slower rate in 1948 than in the previous year.

7. Foreign debt settlement arrived at.

8. By the end of 1948, 75% of foreign exchange due for merchandise on consignment will have been paid; amount of merchandise in customs is down to normal.

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<sup>1</sup> Not printed.

On the debit side the Finance Minister included the following:

1. Inflation is still a serious problem with credit increasing more rapidly than the needs of production require.
2. Anticipated pay increases in 1949 for public servants will require added sources of revenues.
3. Large part of Treasury's surplus cash will be required for cost of living bonuses to public employees, etc.
4. Government and semi-governmental investment activities lack coordination.
5. Only limited economies can be achieved by reduction in government personnel; State development activities can not be increased further save with foreign aid.

Sr. Alessandri stated that the government favored gradual correction of inflationary forces which would include 1) remunerative prices to increase production; 2) upward adjustment of wages and salaries "in the interests of justice"; 3) government expenses to be reduced with fewer employees; 4) concentrate on finishing pending development projects (steel plant, etc.) and postpone new ones until former produce or save foreign exchange; 5) development institutions should use resources only to increase production; 6) social security agencies should be consolidated to curtail competition among them to pay maximum benefits.

The Embassy comments that the Alessandri exposé unquestionably indicates extensive improvement in the Chilean fiscal position, but adds that underlying conditions now favor Chile—since her exports enjoy an excellent market. The Mission feels that the balance achieved by Sr. Alessandri is fairly precarious and that his suggested remedies for inflation are influenced by political necessities of the moment, e.g. his tacit admission of another turn in the wage-price spiral and the government's efforts to please everyone (e.g. salary increases, "semana corrida," differential exchange rates for small exporters, etc.).

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825.51/2-348

*The Ambassador in Chile (Bowers) to the Secretary of State*

RESTRICTED

SANTIAGO, December 3, 1948.

No. 761

The Ambassador has the honor to report that following a recent visit to Chile of officials of the International Bank for Reconstruction and Development, there has been submitted to the Chilean Congress a project of law which would authorize the President to give the guarantee of the Chilean Government to foreign loans and credits



up to an amount of US\$ 100 million or equivalent. Copies of the Spanish text <sup>1</sup> as reported by the local press, and an English translation <sup>2</sup> are enclosed.

The primary purpose of the proposed law is to enable the Government of Chile to comply with the conditions laid down by the International Bank for Reconstruction and Development in connection with the US\$ 16 million credit conceded last spring. Hitherto, the Chileans had been reluctant to give the Bank the requisite assurances that the latter will enjoy equal status with other creditors in the event a specific lien on revenues were granted in favor of other future loans, or to guarantee that Chilean municipalities or other governmental subdivisions or agencies will not contract foreign loans independently. These points are taken care of in Articles 2, 4 and 6. Article 5 specifically covers obligations which may be incurred with the Export-Import Bank, Washington, in connection with the steel mill.

The representatives of the International Bank who recently visited Santiago, Messrs. Iliff and Luxford, found Chilean Government officials and particularly the Minister of Finance, very cooperative; the most difficult point was the question of preventing municipalities, et cetera, from incurring independently obligations which might require foreign exchange for servicing, at the expense of the general Government obligations. This question presented a constitutional problem which it is proposed to solve by obliging the municipalities, et cetera, to secure clearance from the Minister of Finance.

Some adverse comment has appeared in the local press concerning the proposed law. Thus, the weekly *Estanquero* of November 27 points out that the prerogative of giving a state guarantee to external loans properly belongs to the Congress and that the concession of such an important power to Government officials is dangerous. There has also been some criticism of Article 3 which removes the restriction established in Article 29 of the constituent law of the Fomento Corporation. The clause in question provides that "the Corporation may make loans to Chilean nationals or juridic Chilean persons provided that . . . . 60% of the members (of the firm) be Chilean and 60% of the stock be owned by Chileans or juridic Chilean persons in the case of a corporation." The critics state that removal of this restriction would open the door to turning over Chilean enterprise to foreigners.

The Embassy will advise the Department in due course of the further progress of this legislation.

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<sup>1</sup> As reported in *El Mercurio*, November 23, 1948.

<sup>2</sup> Neither printed.

825.51/12-2148

*Memorandum by Mr. Walter Bauer of the Division of Investment and Economic Development to the Chief of That Division (Malenbaum)*

CONFIDENTIAL

[WASHINGTON,] December 21, 1948.

Subject: Chile—Eximbank Application No. 209, \$26 million (Reduced to \$20 million) to Supplement Credit No. 374 for \$28 million, Corporacion de Fomento de la Produccion (Steel Mill).

*Background:* Eximbank granted in November 1945 a credit of \$28 million to Corporacion de Fomento de la Produccion for the purchase in the U.S. of equipment, materials, supplies, and services for construction of an integrated steel plant (Compania de Acero del Pacifico, at Huachipato near Concepcion) to make pig iron, heavy and light structurals, rails, galvanized sheets, wire, pipe, and other iron and steel products. Fomento agreed to furnish funds necessary for all expenditures in Chile as well as any expenditures in the U.S. required in excess of \$28 million. With Eximbank's approval, Fomento gave the Koppers Company of Pittsburgh a contract to assist and advise CAP regarding construction and operation of the steel mill.

Owing to price increases and necessary changes in plans, the cost of the plant, estimated in 1944 at \$56 million, will now approximate \$82.7 million, i.e., \$60.5 million dollar costs and peso costs in the equivalent of \$22.2 million. Since Fomento will assume \$9.5 million of the dollar costs and U.S. suppliers will participate with \$3 million, financing of the difference of \$48 million would require an additional \$20 million Eximbank loan to supplement the original \$28 million.

Fomento had requested earlier an additional credit of \$26 million but was able to reduce this to \$20 million (1) by eliminating two departments, namely, cast iron and steel foundry facilities, and the sintering plant, which do not appear to be essential for the successful operation of the steel mill; (2) by eliminating an item for the development of certain coal deposits also considered unessential at this time; and (3) considering the advanced stage of the design and purchases, by reducing the unnecessarily large allowance for contingencies.

On the other hand, certain refinements in plant facilities were found necessary whereby dollar costs were increased. In this connection the principal items are: A large limestone quarry estimated to require \$580,000 for U.S. equipment and materials, because the available commercial production apparently is unsatisfactory; a brick plant requiring \$50,000 for U.S. purchases, because needed brick was found to be unsatisfactory; and \$148,000 for a sulphuric acid plant required for the operation of the steel mill, inasmuch as the commercial supply of acid for Chile is reported to be unreliable.

An additional \$7.8 million is necessary because of faulty estimating of the general or overhead items of expense. Engineering, administration, and supervision, inadequately provided for in the original estimate, must be increased by \$2,528,000. The total cost of sending U.S. personnel to Chile, including transportation, salary, and maintenance, which was overlooked originally, is estimated to require \$750,000. Provision must be made for an item for contingencies and freight price increases of \$1,700,000. The Bank is asked also to meet start-up expenses of \$115,000 for personnel and \$2,550,000 for inventory items such as coking coal and semi-finished steel which must be obtained in the U.S.

Article I of Law No. 8595 authorized the President of the Republic to furnish the State's guaranty for the liability of \$28 million which the Eximbank granted Fomento for the purpose of acquiring machinery, equipment, supplies, and services for the steel plant, and for the supplementary loans that might be necessary. Eximbank considers the new request for \$20 million far in excess of the authority implied in the term "supplemental loans" and deems it necessary that a new law be enacted by the Chilean Congress expressly authorizing the President of the Republic to guarantee on behalf of the State the new \$20 million obligation of Fomento. The Bank has been advised that such a law has been presented to the Chilean Congress. The establishment of such further credit as the Bank may desire to extend, however, need not await the enactment of such a law, as this would properly be one of the conditions precedent to disbursement required by the credit agreement.

*Eximbank Recommendations:* An Eximbank Staff Committee, in its December 9, 1948 memorandum to the Board of Directors, recommends:

(1) That the line of credit in favor of Corporacion de Fomento de la Produccion, Chile, formulated in the credit agreement of November 27, 1945,<sup>1</sup> be increased from \$28 million to \$48 million.

(2) That the period within which disbursements under the credit may be made be extended from the present expiration date of December 31, 1948, to December 31, 1950.

(3) That amortization for the previous credit of \$28 million be revised from repayment of both principal and interest beginning June 15, 1949, to provide payment of interest only until June 15, 1951, and of the principal of \$48 million and interest after that date in forty approximately equal semi-annual installments.

(4) That the interest rate be fixed as may seem proper to the Board. The Staff agrees that the interest rate on the original \$28 million should remain unchanged at 4 percent per annum. On the supplemental \$20 million some believe that present policy would indicate a rate of 3½

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<sup>1</sup> *Foreign Relations*, 1945, vol. IX, p. 822.



percent while others feel that the supplemental credit should carry the same interest rate as the original.

(5) That the entire credit of \$48 million be unconditionally guaranteed by the Republic of Chile.

(6) That Fomento unconditionally agree to finance all additional expenses necessary to complete the integrated iron and steel plant, including both U.S. dollars and Chilean currency.

*Justification:* Unless completed as proposed, the steel mill cannot become a productive enterprise to supply Chile's requirements and perhaps have a small amount for export. It is estimated that annual savings of dollar exchange may rise from at least \$3.5 million to approximately \$13 million, after debt service on the entire credit calculated at a 4 percent rate of interest.

*State Department Position:* ED, IR, and NWC concur with Eximbank Staff that it is essential to complete the steel mill and have no objection to Eximbank granting the loan. With respect to the rate of interest, the Department sees no economic or political reason why the rate on the new loan should not be 4 percent, if the Board decides to adopt this rate.

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#### AIR TRANSPORT AGREEMENT BETWEEN THE UNITED STATES AND CHILE

[For text of the agreement, signed at Santiago, May 10, 1947, entered into force, December 30, 1948, see Department of State Treaties and Other International Acts Series No. 1905.]

## COLOMBIA

### EFFORTS BY THE UNITED STATES TO PROVIDE FINANCIAL AND ECONOMIC ASSISTANCE TO COLOMBIA<sup>1</sup>

710.11/2-248

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

No. 93

Bogotá, February 2, 1948.

SIR: I have the honor to report an interview given by Ambassador Beaulac to the Bogotá Liberal morning newspaper, *El Tiempo*, about a variety of matters concerned with United States-Latin American relations. The interview was well received by the Bogotá press and, judging by complimentary remarks conveyed to the Embassy, by the Colombian public.

The interview, which was exclusive for *El Tiempo*, was published prominently in the Sunday edition of January 25. It concerned principally the European Recovery Program<sup>2</sup> and agitation for a Marshall Plan for Latin America, but also touched on alleged United States indifference to the other American Republics, American assistance to Colombia, charges that the United States seeks to kill Colombian industry and impose a regime of free trade in the world, the forthcoming Pan American Conference,<sup>3</sup> Communism, and the Ambassador's impressions of Colombia.

Regarding ERP and Latin America's role in it, the Ambassador mentioned the amount of money it has been estimated will be spent in these republics under the program. He said that while scarcities in certain commodities might be expected, they would be felt in the United States as well as in other countries. As for a Marshall Plan for Latin America, the Ambassador said:

"One frequently hears the question, 'Why is there not a Marshall Plan for Latin America?' This is a very natural question inasmuch as it is now a generally accepted theory that the welfare of one country is dependent upon and is derived from the welfare of other countries. Therefore it is argued that if a Marshall Plan for Europe is good for the United States as well as for Europe, a Marshall Plan for Latin

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<sup>1</sup> For previous documentation on Colombia's financial and shipping problems, see *Foreign Relations*, 1947, vol. VIII, pp. 570 ff. and 554 ff., respectively.

<sup>2</sup> For documentation on this subject, see vol. III, pp. 197 ff.

<sup>3</sup> For documentation on the Ninth International Conference of American States, Bogotá, Colombia, March 30-May 2, 1948, see pp. 1 ff.

America would also be good for the United States as well as for Latin America. This reasoning, as far as it goes, is accurate and very natural. There is one limiting factor, however, and that is the limitations on the resources of the United States."

The American people, the Ambassador continued, are convinced that there can be no permanent world peace and prosperity until the economies of Western European countries are rehabilitated to the extent that those countries can contribute normally to world prosperity instead of being a burden on the rest of the world, particularly on the United States, as they are at present. He stressed the great benefits that should accrue to Latin America from a successful recovery program in Europe and ventured the opinion that no one really interested in Latin America's welfare could suggest seriously that American economic aid should not be given to Europe at this time.

The Ambassador pointed out that the resources of the United States are not limitless. Scarcities, he said, will be created by the aid to Europe and are bound to have certain inflationary effects. To increase the scarcities beyond certain limits might be disastrous not only to United States economy but to the economies of all other countries.

In response to a question about United States economic cooperation with the other American Republics, the Ambassador said:

"I am a firm believer in such economic cooperation and I have worked for it tirelessly within my government. I believe it is the best diplomacy that the United States can engage in. It is the essence of the Good Neighbor Policy and, more than that, it is the hope of the world."

The Ambassador said it was inconceivable to him that the United States would ever abandon the theory that "the welfare of one country is dependent upon and derived from the welfare of other countries". "The existence of a Marshall Plan for Europe", he said, "is evidence that the theory is still alive and is a guarantee to all the American Republics that the benefits, direct or indirect, which all countries will derive from the practice of that theory will continue to be received".

In regard to charges of American indifference to Latin America, the Ambassador said the Good Neighbor Policy is the policy of the American people and not that of just "a few people in Washington". He said that if Washington officials are compelled at times to give preferential attention to a crisis that threatens civilization itself, they do so in the belief that they serve the interests of all peoples. This is not indifference, he said, but "service of the highest type".

The Ambassador outlined the assistance the United States is giving to Colombia and told his interviewer he would like to know of "any country which has given as generous aid to its neighbors as the United



States has given, is giving at the present time, and is prepared to give in the future”.

The Ambassador denied emphatically that the United States wants to kill Colombian industry; on the contrary, it wants to encourage it and help it to prosper. He said that all the United States is trying to do is to disarm itself and encourage the rest of the world to disarm economically. High tariffs, quotas and preferences, he said, are very powerful weapons in the hands of economically powerful countries like the United States and it is in the interest of less powerful countries that they be given up.

Respectfully yours,

For the Ambassador:  
JOHN M. VEBBER  
*Public Affairs Officer*

821.24/6-1848

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] July 12, 1948.

Participants: The Secretary of State  
Dr. Roberto Urdaneta, Chief of Colombian Delegation  
to the United Nations  
Mr. Alfonso Araujo, Member of Colombian Economic  
Mission  
Mr. José Gutierrez Gomez, Member of Colombian  
Economic Mission  
Dr. Emilio Toro, Colombian Member of the Interna-  
tional Coffee Committee  
Mr. José Camacho, Counselor of Colombian Embassy,  
Washington  
Mr. Knapp, OFD  
Mr. Smith, OFD  
Mr. Havlik, ED  
Mr. Espy, NWC<sup>1</sup>

The two members of the Colombian Economic Mission, Señores Araujo and Gutierrez, accompanied by Doctors Urdaneta and Toro and Señor Camacho, called upon me by appointment at noon today.

Dr. Urdaneta opened the conversation in conveying to me a message

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<sup>1</sup> Joseph B. Knapp, Director, Office of Financial and Development Policy; H. Gerald Smith, adviser, Office of Financial and Development Policy; Hubert F. Havlik, Acting Chief, Division of Investment and Economic Development; James Espy, Assistant Chief, Division of North and West Coast Affairs.

of salutation and good wishes from President Ospina Perez of Colombia. He then expressed the appreciation of his country for the work of the American Delegation to the Bogotá Conference. Turning to the subject of the visit here of the Colombian Economic Mission, he said that its purpose was to obtain financial assistance urgently needed by Colombia as a result of the economic losses suffered by that country from the disturbances that had occurred last April.<sup>2</sup>

Mr. Araujo then spoke in some detail of the Mission's objectives and the negotiations that had thus far transpired with other agencies of this Government and with the International Bank and the International Monetary Fund. Mr. Araujo emphasized that the requests for financial assistance were not directed to obtain large loans to enhance *per se* the financial position of Colombia, but were for aid in repairing the damages to the economy of Colombia and to put that economy back on the level that existed prior to April. He explained that it would take a long time for Colombia to recover otherwise, while if we could now lend it our help the reconstruction work could be accomplished right away, and once back on its feet Colombia would then be in a position to amortize the expenses over a period of the next few years. For its part the Colombian Government, he said, was taking steps through increased taxation and other revenue measures to help finance the internal costs of some of the destruction caused by the riots. He mentioned that an additional expense which the Government had to meet arose from the cost of maintaining a much larger military police force. The military force alone had been increased from its normal complement of 12,000 men to 30,000 and this represented an increase in expenditures of roughly \$15,000,000 per annum. In reply to my inquiry he stated that the Government was still investigating the value of property destroyed but that it would probably only be possible to make the roughest estimate because the records of the amounts and values of commodities and of capital assets had been destroyed.

I inquired as to the availability of the equipment and machinery required from the United States. Mr. Gutierrez, replying to this question, said that he was of the impression that there was a good indication the Department of Commerce would permit an extra allocation of steel and construction materials over and above the regularly allocated amounts. He also thought it would be possible to obtain agricultural machinery provided a loan, which he believed would have to be about \$12,000,000, could be obtained from either the International Bank or the Export-Import Bank.

I next inquired as to the political situation in Colombia, and Dr.

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<sup>2</sup> See memorandum by Mr. Samuel Herman, November 19, p. 470.

Urdaneta replied that all parties were working together and that there appeared to be every prospect for reasonable stability.

I said that I was very gratified to learn this and that I had been keeping in touch with the situation in Colombia before the arrival of the Mission and since then. I indicated that Mr. Harriman, while Secretary of the Department of Commerce, was, of course, well informed of the developments in Colombia by reason of his presence at the Bogotá Conference. Since Mr. Harriman's departure from that office I had taken steps to acquaint the new Secretary of Commerce in the matter. I further mentioned that both Mr. Martin and Mr. McCloy<sup>3</sup> were familiar with the economic problems of Colombia through their first-hand experience in that country.

I stated that all of us had a very deep and sympathetic interest in the purposes of the Colombian Mission and that the Export-Import Bank and the International Bank would unquestionably also view their purposes with sympathy. These two institutions would naturally have to consider whatever assistance they could render to Colombia in accordance with their statutes, and any loans which they could grant would have to meet their requirements for a sound financial basis. I said that it had been my experience that much depended on the manner in which the applications for the loans were presented and the effectiveness of the detailed material in supporting the applications, and I therefore suggested that particular attention be given to these two points. I said that I had inquired as to what the Department had been doing in assisting the Mission and that I was satisfied that it was making every effort to be helpful. I then reiterated my suggestion that the loan applications be in good order and thoroughly documented. I repeated once more that we were deeply interested in the Mission's purposes here and that it had our warmest support in anything we could properly do to assist it.

I then went on to say that I had been giving considerable thought to the April occurrences and had come to some conclusions in which the Colombian representatives might be interested. I said that the April incident could only be viewed as an evil affair, unnecessarily destructive, and that no good had been accomplished even from the point of view of its perpetrators. I said that I believed the general effect on those present from other countries was one of reflection of how to prevent repetitions of such a disastrous happening. It was apparent to all that mob psychology once set in motion does no good and getting out of control, moreover, goes far beyond the immediate aims of the

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<sup>3</sup> William McC. Martin, Jr., Chairman, Export-Import Bank of Washington; John J. McCloy, President, International Bank for Reconstruction and Development.



demonstrators. It was a lesson to us all,—especially to the representatives of the Latin American countries,—in several direct respects: first, it emphasized the need for caution on the part of any political party to incite violence; second, it brought out the necessity to take adequate measures for maintenance of security; and third, it clearly showed the need for basic changes to prevent explosions in the future which were caused in the main by the tremendous gap between the top and bottom stratas of society in our various countries that gave rise to social unrest. I said that undoubtedly the development of industries and the improvement of the general economy of the country would be very helpful and that they should be undertaken. I then added that I believed there was another important thing which should be done which was the better education of the youth of the country. I said that I believed what would be more helpful than possibly anything else would be for the governments themselves to provide better educational facilities and, in particular, to select for training from the under-privileged and poorer classes of the communities the promising young men and women who could be the future leaders of the country. I called attention in this respect to the policy of the Catholic Church which picked out the best young people for special education and training. If this were done each country could be assured that its future leaders would be educated in democratic ways and prepared to meet the problems of their nations with a much broader and more comprehensive approach. I felt that then there would be a possibility of obtaining greater stability and greater representation of the needs and aspirations of the masses of the people. Parenthetically I mentioned that even in the course of my lifetime this country had witnessed such a development and that I knew personally many leaders here who had risen from lowly walks of life to great influence which was fully merited by their abilities and initiative. Much of this was traceable to the education afforded by free public schools. I concluded on this subject by saying that the possibilities of future disturbances abroad were not ended. Explosions might be recurrent and might be augmented by adverse developments. Even a small depression could set off a series of chain reactions and this was all the more reason why we should now prepare to meet such eventualities.

I also called the attention of the Colombian representatives to some thoughts that had occurred to me in connection with the attitude amongst the Latin American countries, as indicated at the Bogotá meeting, in respect to the European Recovery Program. I said that without going into detail I was sure the program would greatly improve trade, not only with respect to Europe itself, but in relation to

the trade of Latin America. I said that I wished to bring out a particular point here. Since August 1939 the trade relationship between the Latin American countries and the United States had been in a sense abnormally close. Because of the European hostilities Latin American trade had been greatly restricted with Europe, and as a result, over the period of nine years, the Latin American countries had come to lack an appreciation of the importance of trade with Europe and, above all, because of the absence during that period of direct communication with European countries to be unappreciative of the real status of affairs in Europe and the role of that continent in world affairs. For these reasons the Latin American countries fail to recognize what a tremendous factor the recovery of Europe would be and how that recovery will be felt throughout the whole world, including Latin America. Previously the whole Latin American trade patterns with Europe had been forgotten and now they would be re-established.

I concluded my remarks to the representatives by reiterating the statement that I felt that the essential lesson of Bogotá was the necessity of taking preventative measures in time, and that with respect to the Mission itself I wished to say once again that we desired to be helpful to it in every way possible.

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821.85/7-2848

*Memorandum of Conversation, by Mr. Albert H. Gerberich of the Division of North and West Coast Affairs*

[WASHINGTON,] July 28, 1948.

Subject: Discussion of Colombian loan applications and reaction of certain U.S. interests thereto.

Participants: Mr. Mills	Mr. Bauer—ED
Mr. Espy —NWC	Mr. Palmer—FN
Mr. Gerberich	Mr. Walker —CP <sup>1</sup>
Mr. Saugstad—TRC/S	Mr. Hobbs
Mr. Wolf—AV	
Mr. Young—OFD	

Mr. Mills explained that the meeting had been called largely because of observations made by Mr. Saugstad regarding representations brought by U.S. shipping interests to hold up the approval of loans

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<sup>1</sup> Sheldon T. Mills, Chief, Division of North and West Coast Affairs; Jesse E. Saugstad, Shipping Adviser, Office of Transport and Communications; Joseph J. Wolf, Divisional Assistant, Aviation Division; John Parke Young, Adviser on International Monetary Fund, Office of Financial and Development Policy; Walter Bauer, International Economist, Division of Investment and Economic Development; Gardner E. Palmer, Foreign Service Officer assigned to the Division of Financial Affairs; Herman Walker, Jr., Commercial Treaties Branch, and James A. Hobbs, Far and Middle Eastern Branch, Division of Commercial Policy.

to Colombia unless that country agrees to remove discriminations against foreign shipping.

Mr. Mills said that he has understood it to be our policy to consider all loan applications on their economic merits, and not to use the loans as a club to exact economic advantages. He asked Mr. Saugstad to explain the attitude of the shipping interests.

Mr. Saugstad said that the National Federation of American Shipping exercises strong and continual pressure upon Congress. He understands that there is a bill <sup>2</sup> now pending before one of the Congressional committees which, though it is phrased to indicate nothing more than protection of U.S. interests, nevertheless, was introduced for the purpose of combatting some of the discriminations put into effect by several Latin American countries, including Colombia.

A representative of the Federation has taken up with Mr. Saugstad the pending loan applications and asked that we insist on the repeal of existing shipping discriminations before we consider them favorably.<sup>3</sup> Grace and Co. is the U.S. interest principally affected, but the United Fruit Company, Lykes Brothers, and other smaller interests are also involved. Mr. Saugstad asked if there would be any objection to telling the Federation's representative that because of various complications there is no likelihood that the loan application will be passed upon in the immediate future.

Mr. Mills replied that we are anxious to do what we can to expedite action on the Colombian loans, and he did not think we should tell the Federation's representative anything that might indicate the contrary. Mr. Bauer suggested that we tell him that we are trying to negotiate a new treaty with Colombia and that in the course of the negotiations we will keep in mind the shipping discriminations and give careful consideration to the Federation's request.

Mr. Palmer suggested that the Department's representative in the National Advisory Council <sup>4</sup> be instructed to bring the situation before

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<sup>2</sup> Reference is to a bill presented in the House of Representatives on April 3, 1948 by Congressman Henry Latham, which would "prohibit the entry at United States ports of ships of countries which discriminate against the United States merchant shipping", according to despatch 250, April 8 from Colombia, not printed (811.1561/4-848).

<sup>3</sup> For Embassy note to the Colombian Foreign Office expressing this Government's concern about the discriminatory practices, see instruction no. 1273 of August 20, 1947 to the Embassy in Colombia, in *Foreign Relations*, 1947, vol. VIII, p. 554.

<sup>4</sup> The National Advisory Council on International Monetary and Financial Problems was established by the Bretton Woods Agreements Act of July 31, 1945 "in order to coordinate the policies and operations of the representatives of the United States on the Fund and the Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions"; the Council was composed of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank of Washington (Message of President Truman to the Congress, March 1, 1946, in Department of State *Bulletin*, March 10, 1946, p. 380).



that body and ask that it express its opinion regarding the Federation's request. This seemed to appeal to Mr. Saugstad, but Mr. Wolf of AV felt that it would be setting a bad precedent, as the NAC would in the future be approached in similar fashion when other loan applications come up. Mr. Wolf also referred to the impasse that has been reached in the negotiations for a bilateral air agreement with Colombia, due principally to the opposition of U.S. airlines to permitting Colombian lines to obtain landing rights in the United States as long as U.S. lines are refused similar rights in Colombia.

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811.516 Export-Import Bank/8-2448

*The Secretary of State to the Embassy in Colombia*

CONFIDENTIAL  
No. 152

WASHINGTON, August 24, 1948.

The Secretary of State transmits herewith for the information of the Officer in Charge a copy of the agreement, signed on August 12, 1948,<sup>1</sup> between the Republic of Colombia and the Export-Import Bank of Washington establishing a line of credit of \$10 million to finance the acquisition in the United States of supplies, materials, equipment and services required for replacement, reconstruction or repair and development of properties destroyed or damaged during the recent disturbances in Colombia.

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<sup>1</sup> Not printed; for additional information on this credit (No. 442), authorized April 13, 1948, see *Export-Import Bank of Washington: Sixth Semiannual Report to Congress for the Period January-June 1948*, pp. 6 and 18.

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821.51/8-3148 : Telegram

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

CONFIDENTIAL  
602

BOGOTÁ, August 31, 1948—10 a. m.

Replying to Department's request for comment concerning political situation and probability Colombia would honor loan commitments, Embassy's impression is political situation still delicate. I believe chances are either political party would honor loan commitments although impossible to be categorical and violation trade agreement not reassuring.

Embassy notes from Department's 459, August 24,<sup>1</sup> that, in addition to 10 million dollar loan already granted and 50 million dollars re-

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<sup>1</sup> Not printed.

quested of Eximbank, Colombia also requesting 83 million from International Bank.

While Embassy is of course uninformed concerning details of loan applications or possible justification, it favors granting economic loans Colombia under circumstances calculated to be helpful to Colombia and to US. One of most interesting of Colombia's loan requests is that to improve agriculture. This partly documented by US agricultural mission. Suggest priority be given to this application and loan be granted if bank convinced proceeds will be economically efficiently invested. This loan important not only from economic viewpoint but also from viewpoint political stability Colombia.

Satisfactory action Colombian Congress along financial and economic lines, would doubtless favorably influence consideration remainder of Colombia's loan requests. In latter connection Department and Eximbank will wish to bear in mind that Colombian Government's attitude toward oil companies, principally in labor matters, has caused latter to restrict investments Colombia with result dollar income this source being curtailed and possible increase petroleum production which would further improve Colombia's dollar position and economy, is being prevented.

In considering Colombian Government's attitude toward petroleum industry and relationship to extensive new financing by US Government, it should be borne in mind that oil company difficulties which have resulted in curtailed operations arise principally from activities of labor under direction Communist Party members or former members. Furthermore principal objective these labor leaders and frequent illegal costly strikes they provoke is to obtain increasing influence over and possible control of management of oil companies, doubtless for purposes of further curtailing or interrupting petroleum production Colombia. Reiterated promises Colombian Government that this situation will be adequately dealt with have so far brought little result.

Colombian Government (including Foreign Minister <sup>2</sup> and members Colombian financial mission in Washington) has recognized necessity improved attitude toward petroleum companies (Embdes 349 of June 4, 1948 <sup>3</sup>) and I suggest that it be encouraged during loan conversations to adopt this improved attitude. This would be in accordance with our policy of encouraging private investments in other American republics and our policy of stimulating petroleum production.

I believe granting of extensive loans in absence of proper attitude toward petroleum companies would encourage Colombian Govern-

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<sup>2</sup> Eduardo Zuleta Angel.

<sup>3</sup> Not printed.

ment in its present attitude which results in restricted oil production in face of urgent world demand, and would tend to deprive Colombia and other democracies of gains which would accrue from increased petroleum production. Conversely, action by Colombian Government which resulted in increased operations by petroleum companies would improve Colombia's economy, make it better risk, and increase probability loans would have economic results and that repayment would be made.

BEAULAC

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821.6363/9-1048

*Memorandum of Conversation, by Mr. Albert H. Gerberich of the  
Division of North and West Coast Affairs*

[WASHINGTON,] September 10, 1948.

Subject: Discussion with Colombian Economic Mission of Difficulties Encountered by US oil Companies in Colombia.

Participants: Mr. Knapp—OFD; Mr. Smith—OFD; Mr. Mills—NWC; Mr. Corliss—FN; Mr. Gerberich—NWC; Mr. Bauer—ED; Mr. McBride—PED;<sup>1</sup> Mr. Araujo—Colombian Economic Mission; Ambassador Restrepo<sup>2</sup> of Colombia.

MR. KNAPP: We want to discuss with you this morning the increasing concern our petroleum companies find in their operations in Colombia because of what are seemingly excessive demands of Colombian labor, coupled with adverse rulings of the labor courts, and what the companies term an unsympathetic attitude on the part of the Colombian Government. We are preoccupied principally by the effect of this on general economic conditions in Colombia. You understand as well as we that financing by the International and Export-Import Banks is not sufficient to do the main job; their loans are intended to create conditions to encourage a flow of private capital into your country. The Banks naturally expect adequate assurances of repayment and an adjustment of the balance of payments situation.

This development gives us serious concern, as it affects the future economic development of your country. We want to discuss this frankly with you. We have seen certain statistics—extremely rough, but indicative of definite trends—which show no increased investment of foreign capital, but if anything a withdrawal of funds from Colombia last year. There is a widespread feeling that the rights of man-

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<sup>1</sup> James C. Corliss, Assistant Chief, Division of Financial Affairs; John W. McBride, Assistant Chief of Production Branch, Petroleum Division.

<sup>2</sup> Gonzalo Restrepo Jaramillo.



agement are being continually encroached upon by radical labor elements demanding increasing labor participation in the rights of management. The petroleum companies are increasingly reluctant to continue their operations, and consider withdrawing. Can either of you tell us how your Government feels about these developments?

RESTREPO: I know little about the oil problems. Can you tell us this: what are the specific complaints of the oil companies? . . .

KNAPP: Let me emphasize that we are interested only in the flow of investment and its effect on Colombian economy. We are not complaining that the oil companies are treated illegally. We want only to present our concern that these measures—which the Colombian Government may have a right to take—are having a bad effect on the economic condition of the country. We want to know if you too do not feel that the flow of capital into the country and future development are being threatened by these labor troubles. Our Embassy has kept in close touch with the situation, and I do not feel that we should transfer to Washington any discussion as to what laws are just and what ones are not. Perhaps I have talked too long on this subject. Has anyone else any ideas about this?

ARAÚJO (to Mills): What troubles do the companies complain about?

KNAPP (reading telegram): Here is a telegram about a strike on the Texas Company concession at Puerto Niño. The workers apparently declared the strike without fulfilling the legal requirements, yet the court declared the strike legal. Now we don't want to be put in the position of questioning the law or the competence of the courts, but this destroys the confidence of the oil companies and makes them reluctant to continue operations.

RESTREPO: We are interested in taking full advantage of our natural resources, and we realize we must have the cooperation of the oil companies to do so. But, gentlemen, the Government has no authority to interfere with the decisions of the courts. Our labor legislation was discussed for many years in Colombia and reflects a struggle going on all through the period of the war. Now it is necessary to take into account the serious political issues brought about by the increasing demands of labor. Colombia hasn't reached a perfect solution in these matters; I wish we could. We know well that labor conditions in Colombia are not good compared with those in the United States. The standard of living is lower, the condition of the workers is backward. We want to reach a fair solution. We recognize that your intention

is a very sane one, and we offer to get in touch with our Government and try to reach a solution, and I believe we'll be able to talk this over again. I think Ambassador Araujo knows the situation in the oil industry better than I do, so I yield the floor to him.

ARAUJO: I have discussed these problems many times with the company officers and with the American Ambassador, and we have touched upon the possibility of increasing the flow of capital. I am not too familiar with oil problems, but do know something of the situation from my brother in law (Carlos Lozano y Lozano—AHG), who is attorney for the Tropical Oil Company. I am only here on a temporary mission regarding loans. But I explained to Mr. Beaulac that it would have a good effect to discuss all these things preventing the flow of capital—the commercial agreement, navigation matters, social laws, private investments—and reach an agreement good for both parties. Not a cold diplomatic discussion, but frank conversations. I repeat that I know little of oil problems; they lie outside my profession. But I am sure in this question of social laws there has been nothing illegal and no discrimination. I am sure my Government will hear Ambassador Restrepo's suggestion.

KNAPP: I think you understand that the function of this meeting this morning is to make clear to you our concern about the broad implications of these developments. It would be our hope that your Government make clear to the Colombian Congress their probable final effects. The economic condition of the workers is dependent on the development of Colombian resources, they in turn depend on the investment of private capital. We have a common interest with every foreign country in the development of that country—Does anyone want to contribute anything more?

MILLS: I think Ambassador Araujo—whose brother in law is carrying the Tropical case to the Council of State must know something of that oil company's difficulties. Recently a new contract came up for approval between the Tropical and the workers. Labor refused to discuss economic questions, and insisted instead on participation in the company management. Tropical feels that this attitude of labor fundamentally undermines its whole undertaking.

RESTREPO: There is a specific complaint, Mr. Mills. That's what I want.

MILLS: Tropical feels that if labor persists in these demands, it will be difficult to carry on.

RESTREPO: Thank you, Mr. Mills. It is a wide problem. We'll promise to present it to the Colombian Government. It involves the management of Colombian enterprises as well. I have noticed that the real problem is not in the terms of the law itself, but in the Colombian

policy regarding the development of the country. Be assured that the real feeling of the Colombian Government and people is to increase the flow of capital and to forward the good relations between our two countries.

MILLS: And that is our feeling also. There's an old saying, Mr. Ambassador: "You catch flies with honey, not vinegar." If the news gets around that there's bad treatment in Colombia, capital will go elsewhere.

RESTREPO (rising): Now there's only one thing wrong with that saying. I have tried to attract bees with both honey and vinegar, and I have seen that more go for the vinegar than for the honey.

(Laughter)

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821.6363/9-1548

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

CONFIDENTIAL

Bogotá, September 15, 1948.

No. 578

Subject: Does Department Approve Embassy's Attitude Toward Compulsory Arbitration in the Petroleum Industry in Colombia?

SIR:

. . . . .

This Embassy has supported the efforts of American petroleum companies in Colombia to resist the imposition by the Colombian Government, on doubtful legal grounds, of compulsory arbitration, as a means of settling strikes in the petroleum industry in Colombia. The Embassy's activities in this regard have been duly reported to the Department, without any objection on the part of the latter. . . .

Compulsory arbitration in Colombia means, in simple terms, that the striking labor union appoints an arbitrator, the oil company appoints an arbitrator and the Government appoints an arbitrator. In practice, this means that the Government arbitrator makes the decision. This decision, for domestic political reasons, tends to favor labor. There is no provision to limit the subject matter of the arbitration. There is no recourse against the decision, which is binding and final. These circumstances are further aggravated by the following facts: 1) the labor unions in the petroleum industry are Communist-controlled and 2) strikes brought about by the Communist leadership are aimed less at obtaining economic benefits for labor than at obtaining for the Communist labor leaders control of management of the oil companies. The Embassy requests to be informed by the Department, specifically, whether any similar situation involving any form of compulsory arbi-



tration exists in the United States. The Embassy itself is not aware of any.

Conferring upon a Colombian Government representative the right to decide whether or not petroleum companies must accede to labor's demands, many of which, as stated, have to do with the management of the companies, means giving the Colombian Government, or worse still, some individual appointed by the Colombian Government, the right to transfer to the unions or rather to their Communist leaders, the rights of management of the oil companies, or at least some of those rights. My own opinion is that compulsory arbitration, under the conditions referred to, which are the conditions presently existing in Colombia, can result only in the further deterioration of the position of foreign oil companies in Colombia, and in a progressive lessening of oil production here. There can be little doubt that these are, in fact, the objectives of the labor leaders.

I believe, in this connection, that the Department, before dismissing the Tropical Oil Company's objections to compulsory arbitration as unimportant and exaggerated, should recall that there is only one industry in Colombia that is principally American-owned and nearly entirely foreign-owned, and that is the petroleum industry. In only the petroleum industry do strikes chronically occur. Many of these strikes are illegal. Some notoriously illegal strikes have been declared legal by Communist labor judges or labor courts. The strikes in the petroleum industry can have no relation to working or living conditions in that industry because the latter compare favorably with working and living conditions in any other comparable industry in Colombia. They must, therefore, be related to 1) the foreign ownership of the companies, or 2) the nature of the industry, or 3) both. I believe they are connected with both. They are directed against foreign ownership and at restricting and, if possible, reducing petroleum production. Both are normal objectives of international Communism.

At a time when the Government of the United States is being asked to make heavy loans to Colombia, and when we are preparing, at Colombia's suggestion, to begin the negotiation of a General Treaty of Friendship and Commerce to include, among other things, guarantees for American capital invested in Colombia, I believe that the Department should take cognizance of the difficulties faced by American oil companies in Colombia in their resistance to destructive tactics of Communist leaders and that a friendly effort should continue to be made to induce the Colombian Government to use its influence and its legitimate authority to bring about a lessening of these difficulties.

Respectfully yours,

WILLARD L. BEAULAC

611.2131/9-2048

*Memorandum of Conversation, by Mr. Gardner E. Palmer of the  
Division of Financial Affairs*

CONFIDENTIAL

[WASHINGTON,] September 20, 1948.

Participants: Ambassador Restrepo-Jaramillo,  
Counselor of Embassy Camacho  
ITP—Mr. Winthrop Brown <sup>1</sup>  
NWC—Mr. Albert Gerberich  
NWC—Mr. Sheldon Mills  
CP—Mr. Woodbury Willoughby <sup>2</sup>  
FN—Mr. Gardner Palmer

The Colombian Ambassador said that he had requested an audience to explain in person the domestic situation that prompted the adoption of the taxes on foreign exchange which we have protested as contravening the Trade Agreement with Colombia.<sup>3</sup> He stated that the rioting last April <sup>4</sup> had forced Colombia to seek revenues for increased budgetary expenditures; that at the same time the Government sought some solution to the increasingly adverse balance of payments; that the Government after study adopted taxes on sales of foreign exchange for imports to help solve both problems without unduly increasing the cost of living; that these measures were of a temporary nature pending the desired readjustment of customs duties.

Mr. Brown pointed out that we were familiar with the problems facing Colombia, sympathetic toward their solution, but hoped that this could be accomplished by some method more clearly within the framework of measures to expand world trade as contemplated in the ITO charter <sup>5</sup>; that this Government had conveyed to Colombia its ideas by suggesting the substitution of quantitative import limitations to control the balance of payments and nondiscriminatory excise taxes for additional revenue; that even these measures would require a modification of the existing Trade Agreement. He also suggested that we were extremely interested in the better treatment of the U.S. petroleum companies which had some bearing on the subject under discussion inasmuch as the Colombians were asking that we make concessions to them of a nature affecting our trade with that country.

<sup>1</sup> Winthrop G. Brown, Director, Office of International Trade Policy.

<sup>2</sup> Woodbury Willoughby, Chief, Division of Commercial Policy.

<sup>3</sup> In Embassy note No. 144, June 27, 1948, not printed, Ambassador Beaulac informed the Colombian Foreign Minister (Zuleta Angel) that the United States Government would consider that the application of the new exchange taxes imposed in Article 1 of Decree No. 1952 of July 10, 1948 to products imported from the United States and listed in Schedule I of the Reciprocal Trade Agreement, signed September 13, 1935, effective May 20, 1936 (Department of State Executive Agreement Series No. 89, or 49 Stat. (pt. 2) 3875) between the United States and Colombia would constitute a violation of that Agreement.

<sup>4</sup> See memorandum by Mr. Herman, November 19, p. 470.

<sup>5</sup> For documentation on the Charter of the International Trade Organization, see volume I.

The Ambassador said that he had recently discussed the petroleum problem with Department officials and had reported the conversations to his Government. He did, however, stress how difficult this problem was to correct, pointing out the spreading of communistic doctrines and the world-wide activity of trade unions as evidenced by our labor relations problems in coal mining and stevedoring. He expressed great hope for Colombia through the development of its petroleum reserves and was authorized to say that his Government will try to resolve the problem we had raised.

With respect to the substitution of excise taxes for exchange taxes the Ambassador said that experience in Colombia had proven that in some cases the cost of collection of the former was equal or in excess of the receipts, and that they would require an extension of Government bureaucracy. He stated that their system was far different than ours in that where we could govern by signs, Colombia needed a policeman with a stick. As to increasing other taxes the Government believed that still higher income taxes would stifle production without further education to gain acceptance of the taxpayers; that gas taxes were already high, transportation was expensive and one of their principal problems. An increase in tobacco taxes was impractical as these revenues went to the individual states by constitutional authority.

He cited the effective free market devaluation of the Colombian peso from 1.75 to 3.00 pesos per dollar as evidence that increased tax revenues from imports, now a low percentage of total, were justified. He requested that we consider an increase in the existing 4% stamp tax on foreign exchange transactions to 12% as an alternative to the graduated foreign exchange taxes to which we had taken an exception. He asked if we felt that something could be worked out as an interim measure pending ultimate tariff readjustments, stating that he did not expect an immediate answer.

Mr. Brown replied that he thought something might be worked out and that the subject was now being discussed in Bogotá; that these discussions could continue there or here as the Colombian Government saw fit.<sup>6</sup>

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<sup>6</sup> Secretary Marshall had informed the Embassy in Colombia in telegram 476, September 14, not printed, as follows: "Dept considers all increases stamp taxes including so-called coffee tax always to have been violation TA and previously has not protested primarily because moderate degree increases and uniform application all products. However, for your info only, if proposal para 1 above [modification Gen Provs TA so as to permit internal taxes and quantitative import restrictions on Schedule I products] rejected, Dept. prepared take up with Trade Agreements Committee as means providing Col Govt needed relief present emergency. temporary waiver present TA permitting moderate increase stamp tax provided (a) new exchange taxes removed; (b) stamp tax applied uniformly all merchandise transactions and not selectively particular types commodities; (c) that action is taken raise substantial portion needed revenue thru excise or other taxes not discriminating vs. imports; and (d) Col Govt agrees undertake negotiations accede GATT at earliest possible date in any event not later 1950. This waiver should be terminable short notice." (611.2131/9-948)



The Ambassador said he had no desire to "overlap" negotiations taking place in Bogotá, but felt that a frank discussion here might help bring understanding in view of the fact that Ambassador Beaulac has perforce been negotiating through notes to the Foreign Office; that he was authorized by the Foreign Minister to hold this exploratory discussion with the Department and that the Foreign Office will answer Ambassador Beaulac's last note only after he reports.

Mr. Brown agreed to study the situation and inform the Ambassador within the next few days.

The subject of GATT was discussed to the extent that Mr. Brown informed the Ambassador that new time schedules received from Geneva had been communicated to his Government in Bogotá that might allow Colombia to join during 1949 rather than one or two years hence. The Ambassador said that he had received word that Gutierrez and Araújo of Colombia's economic mission presently here would be empowered to discuss this situation.

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S21.24/9-2148

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

CONFIDENTIAL

Bogotá, September 21, 1948.

No. 592

SIR: I have the honor to acknowledge the Department's instruction no. 113 of July 3<sup>1</sup> concerning a possible settlement of the Colombian Government's Lend Lease account of \$1,092,406.87 (U.S.) in Colombian pesos.

On July 21, an officer of the Embassy discussed this matter with the Secretary General of the Foreign Office at which time the latter agreed to bring it to the attention of the Foreign Minister. It was pointed out that the United States Government was in sympathy with the present dollar position of the Government of Colombia; that it would, accordingly, be willing to consider a formal proposal submitted by the latter Government for the settlement of its Lend Lease obligations in Colombian pesos, such funds to be used in the foreign buildings program; that the basic position of the United States Government would be to avoid the acceptance of the official rate as the sole effective rate for implementing any settlement; and, that any formal negotiations would be conducted in Washington between the Department of State and the Colombian Embassy. At that time the Secretary General did not recall any communication on this subject from the Colombian Ambassador in the United States (Enclosure 1 of Reference Instruction).

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<sup>1</sup> Not printed.

On September 20, this question again was raised with the Secretary General of the Foreign Office. He said that a note concerning the matter had been given to the Foreign Minister but that the latter had never discussed it with him. However, on this date he did confer with the Foreign Minister and reported the following:

1) The Foreign Minister is very much interested in the United States' suggestion and will discuss the matter with the President;

2) In addition to the employment of such peso funds by the United States in its foreign buildings program, the Minister wondered whether it would be possible to use such funds in a program of cultural interchange between the two countries.

In view of the latter question, the Department is requested to inform the Embassy whether the peso funds might be used, in part, for such a cultural program, or whether the entire amount would have to be allotted to the foreign buildings program.

Respectfully yours,

For the Ambassador:

R. R. RUBOTTOM, JR.

*Second Secretary of Embassy*

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611.2131/9-2448

*Memorandum of Conversation, by Mr. Albert H. Gerberich of the Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] September 24, 1948.

Participants:	Mr. Brown, ITP	Ambassador Restrepo
	Mr. Mills, NWC	Mr. Araujo and Mr. Gu-
	Mr. Gerberich, NWC	tierrez Gomez, Colom-
	Mr. Palmer, FN	bian Economic
	Mr. Gray, CP <sup>1</sup>	Mission

Mr. Brown began by saying that we have received a message from Ambassador Beaulac indicating that the Colombian Government prefers to pursue here talks regarding the proposed taxes to increase Colombian revenue, and asked the Colombian Ambassador if he had heard anything along that line. The Ambassador replied that he had also received word from his Government to continue the discussions in Washington.

Mr. Brown then said that we have thoroughly gone over the suggestion made Monday <sup>2</sup> that the stamp tax be increased from 4% to 12% as a substitute for the exchange taxes, and we still think it would be better for the Colombians to impose quantitative restrictions along lines not conflicting with GATT and ITO and raise revenue by internal taxation. He said that we are unhappy about the imposition of

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<sup>1</sup> William F. Gray, Acting Assistant Chief of American Republics Branch, Division of Commercial Policy.

<sup>2</sup> September 20.

different exchange taxes for different kinds of products, and consider this an undesirable instrument to use. If we would agree to it, the 1936 Trade Agreement would have no significance.

Mr. Araujo replied by saying that he and Mr. Gutierrez are on a different mission here, but they know the background of the problem and realized at the start that difficulties would be encountered. Going into the history of the present measures, he said that the Trade Agreement was negotiated on the basis of the Colombian Tariff of 1930, when the peso and dollar were equivalent in value. All tariff duties were specific, not *ad valorem*.

Since 1936 Colombian revenue needs have grown with the country and all taxes have had to be increased. In 1936 customs duties amounted to between 35 and 40 million pesos, or about 60% of the budget, while income capital and excess profits taxes amounted to only 14 million. The latter now represent 110 million, while in the same period customs duties have proportionately decreased. Last year only 55 million pesos were collected from customs duties while 130 millions were collected in direct taxes. Income taxes have been increased two or three times, the most recent income tax having been decreed last June. The consumption taxes on items like beer, tobacco, matches, stamped paper, etc., have all been increased.

It is hard to establish a sales tax in Colombia. 80% of the people can't be taxed because of under-consumption. The Department of Boyacá, for example, which has a million inhabitants, imports practically nothing; all articles of consumption are locally produced largely by home industry. Last year more than a million children could not go to school in Colombia because there was no money for teachers or buildings.

The problem is a tremendous one. The Government is trying to cut down the average deficit of 40 to 50 million pesos every year for the last several years by means of new taxes, but it is almost impossible to overcome in this way. The Colombians feel that they have almost reached the limit that they can go in this direction, and an increase in customs duties seems to be the only solution.

The second part of the problem is the tremendous deficit in balance of trade, coupled with increasing depreciation of the currency from year to year. The Colombians have tried to bring down their annual expenses below 350 million dollars, and have been unable to do so. The roads can hardly be maintained under the present budget. Salaries and living expenses are all going up. One could live better on a salary of 600 pesos eight years ago than on 1500 today. Since 1936 in many necessary items the cost has gone up 500%.

When the Colombian Fiscal Committee considered a possible sales tax it found that except for cement, textiles, sugar and one or two others, all Colombian industries are so small that additional taxes



would kill the local enterprises. A 10% sales tax would automatically and instantly wipe out pottery, leather, and other small industries. This sort of tax is therefore no solution to the problem. 90% of the people of Colombia have never worn shoes. Only 20% of the people use imported goods. In some departments (he mentioned Boyacá, Narino, Huila and Tolima) the tax wouldn't raise enough money to pay the cost of collection.

Mr. Mills asked if he considered the income tax collection system efficient, saying that he recalled that a merchant in India keeps three sets of books; one for himself, one for his partner, and one for the tax collector. The Ambassador said that he admitted the Colombians haven't a perfect organization for collecting taxes, and have only fines—no jail sentences—for tax evasion. However, the system is much improved, and is pretty good, for Colombia. He said they caught a lot of tax dodgers last year by exempting them from the penalties of a false return for past evasions if they pay up on current income, and their methods of obtaining the rightful amount of revenue are getting better.

Continuing, Mr. Araujo said there are 35,000 payers of income tax in Colombia, and no more. All the others can't pay. This is a good reason why they prefer not to assess such taxes above the ones now in force. They have also tried to depreciate the currency, but this would give no relief and would increase inflation.

Mr. Mills said that one thing that worried him is the 7% or 10% bonus that is being turned over to the coffee growers from the exchange taxes. He wanted to know if that was necessary.

Mr. Araujo replied that the Government had established, with the consent of IMF, a system of exchange certificates giving preferential treatment to exporters of new articles of commerce. At once the coffee growers protested, saying it was unfair. The Government is now trying to attack the problem from another angle, and will abandon the so-called bonus.

The Committee also considered a general tax of 15% on imports. This was thought unwise, as it would assess drugs and medicines, for example, equally with jewelry and other luxury items. Mr. Brown inquired if it is not true that the Colombian tariff has higher rates on luxuries than on essentials; Mr. Araujo said this is true, but each luxury item is covered by a separate measure. Mr. Mills remarked that the Colombians are therefore following the policy—except for essentials—of charging what the traffic will bear. Mr. Araujo said that this was correct.

Summing up, Mr. Araujo said that Colombia has immense social problems, as he hoped he had demonstrated, and the only source of additional revenue that seemed logical was an increase in the customs duties, as they alone haven't changed in the last 18 years.

Mr. Brown thanked Mr. Araujo for his able exposition, in excellent English, of the difficult situation, and said that the specific nature of his discussion was extremely helpful to us. He added that we want to see that Colombia's needs and our needs are both met to the fullest extent possible, and that it is for that reason that we go to them with our questions. He said that he understood that Colombia is considering a revision of its import tariff, and wondered if they considered revising it on an *ad valorem* basis.

Mr. Araujo said that would be extremely difficult, and cited the common falsification of invoice values as a major deterrent factor. He said that there was no plan to change all specific duties to *ad valorem*.

Mr. Gutierrez then said he wanted to say some things and ask some questions, but he preferred to express himself in Spanish. He said that he felt that the exchange taxes were the logical solution, as they will remove the pressure on the balance of payments, whereas quotas would not. He did not believe that they violate the Trade Agreement. He asked whether the disapproval would have been equally severe if Colombia had decided instead to devalue the peso. Mr. Brown replied that devaluation should be resorted to only in a very serious situation. Mr. Gutierrez remarked: "Exactly—and this *is* a serious situation." Mr. Brown said that probably we would not object to devaluation if it was approved by the IMF.

Ambassador Restrepo then said he would attempt to put the whole problem on a practical basis. He said it was impractical for us to discuss whether the exchange taxes are a violation of the Trade Agreement or not; the Colombian Government holds they are not, and the United States Government holds they are. He did not wish to become involved in a discussion of this difference in point of view. He wanted to point out, however, that the tax was already in existence at the time of the Trade Agreement; and the Colombian Government increased this old tax. The Ambassador said he could understand that there were important principles and commercial considerations involved, and both sides want to reach a satisfactory solution. He had proposed at our last meeting a 12% stamp tax, which does not seem to be viewed more favorably than the exchange taxes. However, he felt sure that a compromise, a new "deal", could be reached without abandoning any principles. He again mentioned the *ad valorem* problem, saying that Colombia is not yet ready to put its tariff on that basis, and cited the evasion of exchange regulations this year in the case of parcel post packages. He suggested that we do not discuss the juridical aspect of the problem, but try to come to an agreement in the old "good neighbor" spirit.

Mr. Brown said that he was in agreement with the Ambassador on a number of points: 1) We desire a speedy solution to the problem; 2) A discussion of whether or not there has been a violation of the Trade

Agreement will not aid in reaching a solution; 3) We are anxious for selfish and unselfish reasons to have our neighbors in economic health and prosperity, and want to help Colombia in particular to come to that condition. But we want to be sure Colombia is helping herself. He had already mentioned in a former meeting the unsatisfactory conditions under which foreign oil companies operate, and which adversely affect Colombia's foreign exchange position. And then there are points of principle, of trade policy, at stake, as the Ambassador had pointed out. He impressed on the Ambassador that he was obliged to be frank and rather searching in his questions because he can anticipate what sort of questions will be asked when the matter goes before our Congressional Committees.

The Ambassador said he had been a Representative and Senator himself, and could understand Mr. Brown on that point. About the oil situation, he said he had sent his Government an urgent message, giving his recommendations, after the discussions he had with us on the former occasion.

It was agreed that another meeting would be held on Monday or Tuesday of next week, depending on whether or not Mr. Willoughby is free to meet with us.

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611.2131/10-848

*Memorandum of Conversation, by Mr. Albert H. Gerberich of the  
Division of North and West Coast Affairs*

[WASHINGTON,] October 8, 1948.

Subject: Discussion of Colombian Trade Agreement  
Violation and Colombian Accession to GATT

Participants: Woodbury Willoughby  
NWC—Sheldon T. Mills  
NWC—Albert H. Gerberich  
José Camacho Lorenzana,  
Counsellor of Colombian Embassy  
Alfonso Araujo,  
Colombian Economic Mission  
José Ma. Gutiérrez Gomez,  
Colombian Economic Mission  
Jorge Mejía Palacio,  
Chargé of Colombia in Sweden

Mr. Willoughby opened the meeting by informing the Colombians that the Trade Agreement Committee had met yesterday and had



taken up their request for assistance in meeting pressing revenue problems. He said that as a result of this meeting he is authorized to suggest to them either of two alternative solutions:

1. If Colombia desires to undertake negotiations to enter GATT in April we shall temporarily withdraw our objections to the present exchange taxes, while reserving all rights under the Trade Agreement.

2. If Colombia feels it cannot enter GATT next spring, and cannot meet its revenue necessities through the medium of internal taxes, we shall not protest the proposed substitution for the exchange taxes of a stamp tax of up to 12%, which it is felt will be adequate for Colombia's needs. It is understood that we would reserve all rights and our refraining from insisting on T.A. compliance is temporary, pending Colombian accession to GATT in 1950.

Mr. Gutiérrez asked whether, if Colombia is not prepared to meet the time schedule and enter GATT next April and elects to follow the second proposal, the US Government is prepared to begin negotiations on a revision of Schedule I of the Trade Agreement.

Mr. Willoughby replied that it is our general policy now not to negotiate bilateral trade agreements or modifications of such agreements, but to negotiate tariff arrangements within the framework of GATT. Also what the US might think regarding certain tariff schedules might not be shared by other members. For these reasons it will not be possible for us to renegotiate our bilateral trade agreement with Colombia. On the other hand, if Colombia decides to participate in the trade negotiations next spring, it would be possible in the interim between the submission of our definitive request list, January 15, as required under the GATT timetable, and the opening of the Geneva negotiations on April 11, to arrange for preliminary discussions of the concessions to be granted by Colombia to the United States.

Mr. Willoughby observed that the memorandum concerning the tariff negotiations commencing at Geneva April 11, 1949 takes cognizance of those cases where a country wishes to change its tariff schedules before applying for admission to GATT. (Document GATT/CP.2/26, paragraph III 2 and 3, pages 3 and 4). However, if a country on the eve of applying for membership in GATT imposes high tariffs for bargaining purposes inconsistent with the principles of the Habana Charter, such action would frustrate the whole purpose of the agreement.

Mr. Araujo explained that it will be necessary to get the approval of the Colombian Congress to a new tariff schedule at the present session. There are 900 items in all in the tariff, but 163 are bound in the Trade Agreement with the US. The Colombians want to study these 163 items with the US beforehand and reach an agreement before proposing to the Congress the duties on them under the proposed new tariff schedule.

Mr. Mills said it appeared the Colombians were asking that the US, after discussions, indicate that when negotiations are finally formally undertaken we shall agree to certain duties on the 163 items. In other words, Colombia asks that we negotiate a revision of the duties on Schedule I items which would not be applied, however, until Colombia enters GATT. He said that although it might be relatively simple for us to make certain concessions during the Geneva negotiations, it might be most difficult to make these outside the framework of GATT negotiations. He also pointed out that if we do not negotiate in April it may be too late, since the new Congress will determine what authority the Department is to have after June 30, 1949, when the present Trade Agreement Act expires.

Mr. Gutiérrez said he would communicate these facts to his Government today and inform us promptly regarding the reply.

Mr. Mills added that our acceptance of the 12% stamp tax must be considered a temporary measure to continue during the interval until we can negotiate a final solution at the time Colombia enters GATT, and we assume Colombia will join GATT as soon as it becomes possible for her to do so, which he understands will be not later than 1950. He asked if Messrs. Araujo and Gutiérrez think that one or other of the two solutions will be acceptable to their Government.

Mr. Araujo replied that he could not say, as they had come up here on quite another mission. He would have to discuss the whole question first with Ambassador Restrepo, then by cable with his Foreign Office.

Mr. Mills asked what plans Messrs. Araujo and Gutiérrez have for returning to Bogotá. Mr. Araujo said they have finished the discussions with the International Bank and had a meeting with the Export-Import Bank yesterday regarding the \$50,000,000 loan application. They had planned to return to Bogotá next Saturday but have cancelled their reservations. Mr. Mills said he had intended to suggest that they remain here a little longer, as things seem to be moving more rapidly now and it would be to their advantage to follow developments closely.

Mr. Willoughby then said that there is still one more problem we would like to take up, namely, a basic commercial treaty. Assuming that accord is reached in the Trade Agreement matter, we are ready to proceed with discussions on a new treaty of Friendship, Commerce and Navigation, and probably can have a draft ready for the Colombians by next Wednesday. If after studying the draft they could have discussions with officers of the Department it might provide useful background on our thinking which they could pass on to their Government when they return to Bogotá.

Mr. Camacho asked if a Spanish text of the draft treaty will be available. Mr. Mills replied that such a text will not be immediately available, as our Translating Division is swamped with work. He explained that we have been thinking of the new draft as a substitute for the outmoded Treaty of 1846,<sup>1</sup> and mentioned some of the features of the latter that appear to be outdated.

It was agreed that we shall invite the Colombians to come in again next week and give them the text of the proposed treaty for study.<sup>2</sup>

After the Colombians had left it was decided that Ambassador Beaulac should be informed by telegram at once of the proposals made to the Colombians.

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<sup>1</sup> Treaty of peace, amity, navigation and commerce between the United States and the Republic of New Granada, signed at Bogotá, December 12, 1846 (Department of State Treaty Series No. 54, or 9 Stat. 881).

<sup>2</sup> The Department's instruction 177 of October 16, 1948 transmitted copies of the draft treaty of friendship, commerce and navigation to the Embassy in Colombia and stated that a copy of the draft treaty had been presented to the Colombian Embassy on October 14 to serve as a basis for negotiations between the Governments of the United States and Colombia (711.212/9-248). A copy of the draft treaty was delivered to Eduardo Guzman Esponda, the Secretary-General of the Foreign Office, on November 4, according to despatch 662, of that date from Bogotá (711.212/11-448).

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### *Editorial Note*

The Interdepartmental Trade Agreements Committee on December 17 issued formal notice of intention to negotiate with Colombia for reciprocal reduction of tariff and other trade barriers and for accession of that country to the General Agreement on Tariffs and Trade concluded by the United States and 22 other countries at Annecy, France on October 30, 1947. Colombia was to join with 11 other countries in the negotiations scheduled to begin at Geneva on April 11, 1949. (Department of State *Bulletin*, December 26, 1948, page 807.)

An agreement terminating the reciprocal trade agreement of September 13, 1935, was effected by exchange of notes signed at Washington on October 12, 1949, and it entered into force on that date (TIAS 2207, or 2 UST(1) 569). The note by the Secretary of State to the Colombian Ambassador (Zuleta Angel) referred to the recent tariff negotiations conducted at Annecy and unsuccessful efforts of the United States and Colombia to conclude negotiations directed to the exchange of mutually satisfactory tariff concessions and envisaging the accession of Colombia to the General Agreement. The United States and Colombian delegations to the Conference had agreed to recommend termination of the 1935 Trade Agreement. The agreement of October 12, 1949 provided for termination on December 1, 1949;



the commercial relations of the two countries were to be subject to the provisions of the Treaty of Peace, Amity, Navigation and Commerce between the United States and the Republic of New Granada, signed at Bogotá, December 12, 1846 (TS 54, or 9 Stat. 881). In despatch 653, October 21, 1949, not printed, Ambassador Beaulac reported as follows: "The Embassy has calculated that the termination of the Trade Agreement would provide, with the presently restricted trade situation, a maximum added revenue of 5,000,000 pesos per year under the existing basic tariff schedule. This would represent an increase of about 10 percent in import duty revenue and an increase of about 1.3 percent in the current collection rate of total national revenue" (611.2131/10-2149).

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821.6363/9-1548

*The Acting Secretary of State to the Embassy in Colombia*

CONFIDENTIAL

WASHINGTON, October 27, 1948.

No. 183

The Acting Secretary of State refers to the Embassy's despatch No. 578 of September 15, 1948. As a result of the memorandum of conversation, dated August 16, 1948,<sup>1</sup> entitled "Petroleum Developments in Colombia", the Embassy desires to know the Department's attitude toward compulsory arbitration in the petroleum industry in Colombia.

The statement regarding compulsory arbitration to which the Embassy refers was somewhat more lengthy than indicated in the memorandum of conversation. The reasoning ran somewhat as follows:

A distinction should be drawn between compulsory arbitration as a procedure and the recommendations and results of any particular arbitral award. As a procedure, compulsory arbitration has been adopted in some states in the United States and many other countries of the world, including European and Latin American, as an alternative to strikes or lockouts in essential industries, which might otherwise seriously endanger the public interest. Consequently, it would follow that this Government should not object to the use of compulsory arbitration by other countries as a procedure for settling labor disputes threatening the public interest. In addition, in Latin America it would be difficult to keep objections by this Government to the use of compulsory arbitration from becoming public knowledge and from leading to accusations by unfriendly elements of interference by this country in the internal affairs of other nations.

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<sup>1</sup> Not printed.

In the opinion of the Department, when in practice the use of compulsory arbitration leads to government actions or sanction of actions which are discriminatory against American firms or are objectionable for other reasons, the Embassy should, of course, assist in attempting to remedy the substantive situation. For example, the Embassy has been most appropriately concerned over the objectives of the Communists and the extent of their control within the petroleum unions, the activities of the Tropical arbitration tribunal which exceeded its terms of reference and the attempts to force the company to submit to arbitration issues which the Embassy feels should be left exclusively to the company.

The Department shares the concern of the Embassy over the protection of strategic United States interests in Colombia as well as the legitimate interests of American concerns there. It believes that the policy suggested above will assist the Embassy in protecting such interests, as it has in the past.

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S21.24/S-1648

*The Acting Secretary of State to the Secretary of Defense  
(Forrestal)*

CONFIDENTIAL

WASHINGTON, October 29, 1948.

MY DEAR MR. SECRETARY: The Colombian Government has submitted to the Department of State the underlying list of military equipment,<sup>1</sup> with the request that the equipment be supplied by this Government. In accordance with information received by the State Department from the Departments of the Army, Navy, and Air Force, the Colombian Government has been informed that, with the exception of fifty-two surplus military aircraft, none of the equipment is in excess of the requirements of the United States Army, Navy, and Air Force, and accordingly, that the only source of supply for the equipment is the commercial market in the United States.

The Department of State has been advised by the Departments of the Army, Navy, and Air Force that the latter are prepared, in coordination with their own procurement, to use their good offices to facilitate the negotiation and execution of contracts between other American republics and United States commercial sources. The National Military Establishment is requested to consider the Colombian request for implementation in accordance with this policy, which was transmitted to United States diplomatic officers in the other Ameri-

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<sup>1</sup> Not printed.

can republics by the Department's circular instruction of July 30, 1948, a copy of which is enclosed.<sup>2</sup>

The United States Embassy, at Bogotá, has indicated an urgent need of Colombia for sufficient arms for maintaining internal stability at a time when the Colombian Government is being threatened by subversive Communist elements. It is felt that an immediate effort should be made to assist the Colombian Government in the procurement of those amounts and types of military equipment required for this purpose, provided that the procurement of such equipment would not seriously interfere with procurement for the Greek, Turkish, Chinese, and other programs of a high priority.

For the purpose of further consideration, I will appreciate being informed what types and quantities of equipment set forth in the underlying list are believed by the National Military Establishment to be required by Colombia for the purpose of maintaining internal stability. I will also appreciate information as to the present feasibility of assisting the Colombian Government in securing the desired equipment from commercial sources, in coordination with the present National Military Establishment procurement program.

Sincerely yours,

ROBERT A. LOVETT

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<sup>2</sup> *Ante*, p. 218.

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811.516 Export-Import Bank/11-448

*Memorandum of Conversation, by Mr. Walter Bauer of the Division of Investment and Economic Development*

[WASHINGTON,] November 4, 1948.

Participants: Mr. Restrepo Jaramillo, Colombian Ambassador  
NWC—Mr. Gerberich  
ED—Mr. Whitman <sup>1</sup>  
Mr. Bauer

The Colombian Ambassador, visiting at his request, impressed upon ED the urgent need for Eximbank action on the \$50 million loan application. In referring to the principal reason for this application, i.e. the events of April 9, he emphasized that the manner in which the Colombian Government handled the uprising was quite different from the actions of other Latin American governments under similar circumstances and plainly indicated the democratic and liberal make-up of his government. By such inference having laid claim to special consideration of Colombia's problems on the part of the U.S. he attempted to strengthen his argument by pointing to Colombia's efforts to estab-

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<sup>1</sup> Roswell H. Whitman, Division of Investment and Economic Development.



lish economic order and President Truman's reelection as factors creating a particularly favorable basis for economic aid to his country. Although the Ambassador stated that he wished to stress the political significance of the loan and not talk about its economic aspects, he reminded his listeners of the fact that trade between the two nations has shown a constant upward trend over a long period of time and that failure to make the loan might cause this trend to change to the detriment of both nations. At one point in the development of his preamble he recalled that it was the Department which suggested to the Colombian Economic Mission to take the application to Eximbank.

Mr. Whitman assured the Ambassador that the Department is fully aware of Colombia's problems and her need for economic aid. The principal objection to the loan, however, rests upon its balance of payments features. It is felt in some quarters that other countries are in exactly the same position in which Colombia finds herself with respect to the necessity of equilibrating the balance of payments by drastic curtailment of imports. If there were evidence or assurance that this and other economic controls are actually being applied, present objections to a Colombian loan of less than \$50 million might disappear. Also, if it could be shown that the loan is not for general balance of payment purposes, but one to supply Colombia with specific essential capital goods, for example agricultural machinery or transportation equipment, the opposition might be overcome.

In reply, the Ambassador related the following conditions attached by the International Bank to proposed loans: (1) balance the budget, (2) equilibrate balance of payments and (3) devalue the peso and declare new parity following International Monetary Fund recommendations. These steps are being taken. The proposed budget is in balance, and non-essential imports are being eliminated in order to achieve balance of payments equilibrium. For example, no import license for passenger automobiles has been issued for some time. He wished to make clear, however, that if payment of compensation for stocks of merchandise lost during the April events had to come out of the budget, there would be a deficit. In response to Mr. Whitman's inquiry as to how much \$20 million would represent in relation to the Colombian budget it was established that it would amount to roughly 10 percent. According to the Ambassador the Colombian Congress does not question the budget proposed by the Government. A reduction by 74 million pesos is contemplated, but it is very difficult to determine where the cuts should be made. Government expenditures have increased in harmony with the decrease in the purchasing power of the peso. The Colombian budget is modest if the real purchasing

power of the peso is applied in the conversion of the figures instead of the official rate of exchange. In addition to the importance of the loan from the viewpoint of budget balancing it will have great political significance not only in Colombia but throughout the Western Hemisphere. It will be viewed in terms of the Good-Neighbor-Policy and Mr. Truman's reelection. *At Bogotá the U.S. delegation issued a declaration to the effect that \$500 million will be used for lending in Latin America. The making of the Colombian loan would signify that the declaration is actually valid.*

Mr. Whitman pointed out that in this spirit Colombia has already received aid to the extent of \$10 million and that in making the loan Eximbank departed markedly from its lending policies. Since it is felt, however, that Colombia needs additional assistance he would like to know whether the Ambassador would accept the previously outlined approach. The Ambassador stated that, originally, Dr. Araujo had no intention to take the \$50 million loan to Eximbank. In fact, he had questioned the advisability of doing so, but it had been suggested to him by the Department whose representative Mr. Knapp agreed that this was not an ordinary Eximbank loan proposition. The Ambassador then restated the three broad categories of the loan (i.e. \$20 million for replenishment of merchandise stocks destroyed or looted, \$8 million for army, police, government equipment and hospital; \$22 million for importation of goods essential to industry and agriculture) and inquired into Eximbank's attitude on the first two categories. Mr. Whitman replied that the Bank is more inclined to make the loan under the third category than to finance the replacement of losses. In the last analysis, it makes no difference under which category the \$20 million are being lent because they constitute that much economic aid. But, since Eximbank has the final say, the Department must follow the approach which is most acceptable to the Bank. The Bank prefers to finance expenditures for capital goods which would be of lasting benefit to the Colombian economy and it would also like to make the loan contingent upon satisfactory action by the Colombian Congress.

The Ambassador illustrated the existing dilemma approximately as follows: "We in Colombia need to know what the decision of the Bank is before we can decide what to do; you, on the other hand say that in order to make a decision on the loan you must know what the Colombian Congress will do". Therefore, he proposed the solution that Eximbank approve the loan on the condition that the Colombian Government take specific lines of conduct in economic matters. The Colombian Government would then be in a position to go before Congress with definite arguments and to say: "Take it or leave it". Mr. Whitman replied that the Department is thinking along these very

lines and that in view of imminent Congressional adjournment, he expects to inform the Ambassador of the outcome more definitely around the end of next week. The Ambassador, while not wishing to insist on \$50 million, called to attention that his experience as a banker had taught him the difference between too low and reasonably low. Mr. Whitman emphasized again that he would not be able to give the Ambassador definite figures next week but expected to be ready to discuss specific categories of essential capital goods to be financed and that it is the aim of the Department to bring about some action to aid the Colombian economy.

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611.2131/11-1948

*Memorandum by the Chief of the Division of North and West Coast Affairs (Mills) to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] November 19, 1948.

Subject: CP Insistence Colombians Comply with Our Trade Policy Program if Loan is to be Granted

At meeting which took place in my office on July 28 Mr. Saugstad stated that U.S. shipping interests wished the U.S. to hold up action on any loan application from Colombia until Colombia removed discriminations against foreign shipping.

I took the position that our policy should be to consider loan applications on their merits and not use loans as a club to obtain economic advantages. Later August 19 Mr. Gerberich and I provided Mr. Saugstad with a statement that in our opinion action on the loan application should not be made contingent on removal of the shipping discriminations.

A second meeting was held on August 27 to discuss whether the Colombians should be advised that their action towards U.S. oil companies might have an effect on the loan. It was decided, later in a meeting in your office, that the Colombians should be told that their attitude towards the oil companies appeared to be having an adverse effect on the investment of foreign capital in Colombia and this is of importance in considering their balance of payments position which, in turn, is of great importance in deciding whether Colombia can service a loan. This was done by Mr. Knapp later in the month.

During the August 27 meeting Mr. Hobbs of CP asked whether we could not tie in with the loan, Colombian action on exchange taxes. The others present at the meeting were opposed. Hobbs indicated that CP very likely would insist on such a tie in.



I had long and involved discussions with CP regarding our reply to an inquiry from Ambassador Beaulac as to whether the loan application would be affected by Colombia's violation of the Trade Agreement. The answer finally agreed on (section 6 Deptel 476 Sept 14<sup>1</sup>) reads as follows:

"6. Re Eximbank loan application, Bank's policy is consider applications strictly basis economic justification, and Dept not in position to offer loan as *quid pro quo* for settlement outstanding issues. However, economic policy applicant Govt, including attitude tariff and trade, has important bearing upon attitude Dept and other agencies on Natl Advisory Council which must make recommendations to Eximbank re loan."

The Eximbank has approved advising the Colombian Government that it will "consider" a loan of \$20 millions providing the Colombian Government carries out the fiscal reforms prescribed by the International Monetary Fund. The NAC has approved this action.

Any follow-up telegram which CP wishes to send on the loan should, in my opinion, not be in contradiction with the excerpt quoted above from Deptel 476.

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<sup>1</sup> Not printed.

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821.00/11-1948

*Memorandum by Mr. Samuel Herman, Assistant to the Legal Adviser (Gross), to the Assistant Legal Adviser for International Claims (English)*

[WASHINGTON,] November 19, 1948.

Subject: Liability Under International Law of the Colombian Government for the Bogotá Uprising of April 9, 1948.

You have asked that I prepare a brief memorandum for the files containing my conclusions as to the above.

There is an amplitude of comment in the various despatches, both antedating and postdating the April 9 uprising, as to the contributing sociological, economic, and political factors. I suggest that the salient legal facts are as follows:

Jorge Eliecer Gaitan, the Liberal Party chief, was assassinated on April 9, 1948. The masses in the cities of Colombia were shocked into instantaneous revolt. Mobs roamed the streets of Bogotá and other cities looting, burning and destroying property. The total damage to buildings and merchandise in Bogotá was estimated as between 78 and 86 million pesos; additional damage to the estimated amount of 10 to 12 million pesos was caused in other cities.

No attempt was made by the authorities to restore law and order

on April 9. The police were in rebellion. Army troops normally stationed in Bogotá were out on manoeuvres. When they returned they were initially used to reinforce the Palace Guard and protect the safety of the President. Leaders of the Liberal Party attempted to guide the revolt into an organized revolution against the Conservative Government. For this purpose, an Executive Committee of the Liberal Revolutionary Junta was organized on April 9. All of the radio stations were in the hands of Liberal supporters. At 7:00 P. M. on April 9 Liberal leaders met with the President to request his resignation. They remained in continuous session for seventeen hours.

On the morning of April 10, troops appeared in the streets of Bogotá. They recaptured the radio stations and routed the rioters. Skirmishes nevertheless continued for several days. On April 10, the President announced the formation of a new coalition government containing six Liberal and six Conservative members. On April 12, the last center of resistance to the Government capitulated to the Army when 500 members of the police force surrendered.

The President agreed with the Liberal leaders that the Government would refrain from "political reprisals". The military authorities arrested all leaders of the uprising but released them after perfunctory questioning. Punishment is not expected. A decree was issued providing that all persons charged with common crimes would be tried in court martial. "Simple" political crimes would be tried in the civil courts.

On April 15, the Government created a Damage and Loss Information Board to compile data on the extent of losses. It was required that statements of losses be filed with the Board. Organized business groups, primarily affected by the riots, remained, in general, of the view that legal action seeking indemnification through the Colombian courts might prove unavailing and even if successful the Government might be unable to pay without special property taxation.

On May 25, the Government formulated the following measures of relief to injured persons: (1) tax relief; (2) long term mortgage loans for building reconstruction; (3) long term Government guaranteed commercial loans; (4) special import license facilities to replace lost stocks. Direct compensation for established loss was not provided.

Three American citizens who suffered loss in Bogotá (Messrs. Jack Kagan, Ludwig Wortman and Max Wortman) have asked for diplomatic intervention for damages sustained.

The American Embassy (despatch No. 336, June 1, 1948<sup>1</sup>) perceived no present grounds for intervention. I concur.

The general rule that a State cannot be liable for damages caused by

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<sup>1</sup> Not printed.

mobs or insurgents is based on the theory that there cannot be international liability where the forces are out of the control of the State. On April 9, the lawful repressive forces of Colombia, the police and the Army, were not under the effective control of the Government. Considering the scale of the uprising, the official impotence, the organization of a "revolutionary Junta", and the political orientation of the events (explicitly recognized by the Palace discussions), it might well be concluded that on April 9 there was no central government in Colombia.

I am not convinced that the Government was guilty of culpable negligence in failing to foresee impending trouble and in failing to maintain an adequate and reliable force to protect property. While the situation was politically unstable, the proximate cause of the uprising, i.e., the assassination of Gaitan, cannot, on present evidence, be attributed to the Government. There is no indication that Government officials knew of, or instigated the assassination of Gaitan. It appears that the Government had little or no warning of the uprising and no opportunity to take precautions to prevent or suppress sudden riots of the magnitude and fury of those that developed on April 9. The mob acted in "heat of blood", not in pursuance of a predetermined plan or purpose of injury which an alert Government might with reasonable diligence have known and forestalled.

Indeed it is unclear that the Government has remedied the essential weakness which rendered it impotent on April 9. The cabinet, after April 9, was evenly divided between Liberal and Conservative Ministers, with a non-political head of the Army. Should the Liberals withdraw in a future Liberal-Conservative crisis, violence might again ensue. The police apparatus of the State might again refuse to support the Government. I take it that this dilemma underlies the unwillingness of the Government to punish the leaders of the uprising. Punishment may, in fact, contribute to a further uprising. I take it that for this reason the rather limited punitive measures embarked upon by the Government must be considered "appropriate steps", precluding diplomatic intervention on the score of failure to apprehend and punish the leaders of the uprising. In point of fact, the Government placed some of these very leaders into the Cabinet.

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811.516 Export-Import Bank/11-1948 : Telegram

*The Acting Secretary of State to the Embassy in Colombia*

CONFIDENTIAL

WASHINGTON, November 19, 1948—2 p. m.

533. For info Emb. Eximbank Board has considered thoroughly Colombian Govt credit application. Board believes that in present financial and economic circumstances a loan could provide only



temporary assistance and repayment might be difficult but that, if Colombians were to take essential fiscal and monetary steps including balancing budget, restricting credit, reducing import demand, revising exchange rate, improving exchange controls, etc., along lines agreed upon by representatives International Monetary Fund and Colombian Govt, a credit could be extended for productive purposes which would have permanent benefit and could more readily be repaid. Before such a credit were established Colombian Govt would need to agree with Bank upon program for utilization of credit setting forth specific categories of goods to be purchased and specific industries or purposes to which such goods were to be devoted.

Board has requested that Emb make oral statement to Colombian Govt along following lines:

"Eximbank Board has been giving serious consideration to Colombian Govt loan application. Board does not feel that it can reach sound decision either for or against credit pending action in Colombia on pending proposals for solution Colombia's internal and international financial problems. Board has inquired incidentally as to when final settlement of defaulted departmental and municipal bonds is expected. Board is inclined, if effective fiscal, monetary and exchange program should be enacted by Colombian Govt, toward consideration credit of not more than \$20 million for purchase of capital goods to be used in development of Colombian economy provided that prior to approval of credit Colombian Government can delineate program satisfactory to Bank for utilization of credit indicating specific categories of goods to be purchased and specific industries or purposes to which such goods are to be devoted."<sup>1</sup>

LOVETT

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<sup>1</sup> In telegram 535, November 19, not printed, the Acting Secretary stated: "Deptel 533 you should unless you perceive objection also convey thought not mentioned reftel that Dept's attitude on economic cooperation will be definitely influenced by ColGovt's attitude toward existing international agreements" (811.516 Export Import Bank/11-1948).

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821.24/9-2148

*The Acting Secretary of State to the Embassy in Colombia*

CONFIDENTIAL  
No. 205

WASHINGTON, November 24, 1948.

The Acting Secretary of State acknowledges the receipt of the Embassy's despatch No. 592 of September 21, 1948 under the subject of "Settlement of Colombia's Lend-Lease Account in Pesos" and transmits herewith for the confidential information and records of the Embassy a copy of the Department's note of October 28, 1948<sup>1</sup> to the Embassy of Colombia in Washington through which the Government

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<sup>1</sup> Not printed.

of Colombia is informed of the final figures of the "treaty" lend-lease account and is requested to indicate its intentions concerning settlement.

It will be noted that the final balance due from Colombia under the Lend-Lease Agreement of March 17, 1942<sup>2</sup> is \$1,092,406.87 and that, in accordance with the terms and conditions specified in the Agreement, full settlement was due on or before June 30, 1948.

The Department's position in respect to working out a settlement formula for this account already has been outlined in its instruction No. 113 of July 3, 1948<sup>3</sup> and the Embassy's discussions with Colombian officials, as reported in despatch No. 592, have the approval of the Department. It is noted that the matter of a proposal for payment of the lend-lease indebtedness in pesos is now under consideration by the Colombian Government which would like to know whether, in addition to a buildings program, there would be any possibility of using a part of the resulting peso funds in the development of "a cultural interchange program".

As the Embassy may be aware, the Fulbright program is specifically limited to the use of local currencies arising from the disposal of surplus property abroad. While the Legal Adviser of the Department has said that it is legally possible under the Lend-Lease Act to use local currencies arising from lend-lease transactions for an educational program, the Department has not yet determined that, as a matter of policy, such use would be wise. The authority under the Lend-Lease Act is exceedingly broad indicating in Section 3(b) that the terms and conditions upon which any foreign government receives aid shall be those which the President (or those acting by delegation from him) deems satisfactory, and the payment for lend-lease aid may be any direct or indirect benefit that the President (or those acting by delegation from him) deems satisfactory.

The Congress has already given specific authorization in the education and cultural field in the Fulbright Act and the Smith-Mundt Act. It would seem desirable that before efforts are made to use local currencies arising from lend-lease transactions for educational purposes, the Department consult with interested Congressional leaders or obtain specific legislative authorization. Such consultation would provide a firm foundation for the program, and any resulting legislation would also specify clearly the administrative responsibilities and arrangements. While the matter has been considered from time to time in the Department, no decision has been reached yet as to whether the necessary legislation will be requested.

In view of the foregoing, you should not encourage the Colombians

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<sup>2</sup> *Foreign Relations*, 1942, vol. VI, p. 189.

<sup>3</sup> Not printed.

to expect an educational program by payment of pesos in settlement of the lend-lease obligations. In your discretion, you may indicate, however, that at some time in the future, should the Department seek and obtain Congressional approval for such programs, it may be possible to find an appropriate solution to suit Colombia's needs.

For the present there is a recognized need by this Government for improved and expanded facilities in Colombia for the Embassy and other units of the foreign service establishment and FBO has legislative authority to use lend-lease foreign currencies. While a new settlement arrangement should not limit the uses of lend-lease pesos, you should make it clear to the Colombian officials that, for the present, they will be used only for the buildings program and other administrative expenses of this Government. In connection with these negotiations it would also seem timely to remind the Colombians that there are still outstanding and unpaid certain other accounts contingent to the "treaty" lend-lease account which, it is expected, will be paid soon in dollars. These other accounts, which have not been considered in any contemplated settlement plan which would be acceptable to the Department, are as follows:

1. *Cash Reimbursable (100%) :*

Hospitalization (post V-J Day)	\$ 127.00	
Transportation (land)	343.70	
Military Air Transport Service	<u>1,680.93</u>	
		\$2,151.63

2. *Lend-Lease Vessels' Account:*

11 vessels, offered at 10% of cost	<u>5,152.00</u> <sup>4</sup>
Total amount of reported unliquidated contingent accounts	<u>\$7,303.63</u>

Prompt payment of these contingent accounts would considerably reduce the attendant fiscal work and, in the case of the vessels, would permit the transfer of full title to the Government of Colombia.

The Embassy is requested to advise the Department of the result of any further negotiations it may have with the Colombian Government concerning these matters.<sup>5</sup>

<sup>4</sup> Further documentation relating to this item is in Department of State file 821.34.

<sup>5</sup> In despatch 347, May 27, 1949, the Embassy in Colombia transmitted copies of two memoranda from the Colombian Foreign Office dated May 2 and 25, 1949, respectively, containing a proposal for settlement of the Colombian lend lease debt; the Foreign Office suggested that in view of Colombia's difficult economic circumstances payment be made in approximately five equal installments payable quarterly beginning in January 1950, and the Colombian Government would prefer that payment be made in Colombian pesos (821.24/5-2749). In a note of December 23, 1949 to the Colombian Ambassador in the United States (Restrepo-Jaramillo), the Secretary of State noted that no indication had as yet been received that the Colombian Government had taken steps to settle this obligation and requested that the matter be brought to the attention of the Colombian Government for early action (821.24/12-1949).



821.51/12-1748

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

No. 756

BOGOTÁ, December 17, 1948.

SIR: I have the honor to report to the Department press statements made by Messrs. Alfonso Araujo and José Gutiérrez Gomez, concerning the results of the recent Colombian Economic Mission to the United States of which both were members.

In an interview published in *El Tiempo* on December 11, Dr. Araujo stated that the object of the Mission was three-fold: 1) conclude negotiations for the settlement of the departmental and municipal bond indebtedness. In this connection, Dr. Araujo pointed out that arrangements for the servicing of the bonds were virtually completed. In January, 1949, the first coupon or premium on the new bonds, which have the guarantee of the national Government, will fall due and that the various municipalities and departments now have funds on deposit to cover the initial payment. Dr. Araujo stated that after sixteen years Colombia is now able to settle in full its credit obligations in a mutually satisfactory and equitable manner; 2) obtain credits from the International Bank for Reconstruction and Development and the Export-Import Bank for required public works projects and to relieve present pressure on Colombia's exchange position; 3) treat on other matters, such as the practicability of the multiple exchange tax and Colombian entry into the General Agreement on Tariffs and Trade.

In answer to a query as to the status of the loan negotiations, Dr. Gutiérrez pointed out that the settling of the question of repayment of the department and municipality indebtedness would undoubtedly make the acquisition of new loans a great deal less difficult. Dr. Araujo said that a loan of U.S. \$70,000,000 had been requested from the International Bank for Reconstruction and Development and that full justification as to the need of such loan had been presented to the Bank. . . .

In commenting upon Colombia's plan for repayment of any loans negotiated with the International Bank, Dr. Araujo stated that the Bank of the Republic would guarantee all loans and would, in turn, issue equivalent bonds and loan paper to the Colombian public in order to always assure available funds to service the loan.

Referring to Export-Import Bank loan negotiations, Dr. Araujo stated that in addition to the U.S. \$10,000,000 which Colombia had obtained for reconstruction purposes and to stimulate agricultural production following the political disturbances of April, another U.S. \$20,000,000 loan had been requested. He stated that the Export-Import Bank was giving serious consideration to this loan request. However,

before authorizing such a loan the Bank was particularly interested in learning what Colombia's policy was going to be on such vital questions as the public debt, Colombia's budgetary expenditures, emission of new circulating media, public credit, multiple exchange tax and Colombia's position with the International Monetary Fund. Dr. Araujo stated that devaluation of the gold content of the peso, contraction of public credit by increasing bank reserve requirements, and elimination of the 10-point coffee bonus satisfied the requirements of the International Monetary Fund. Pending legislation, he pointed out, would insure a balanced budget during the ensuing year. He added, however, that continuance of the exchange tax in modified form constituted an important revenue-producing measure required to equalize the budget. In concluding this phase of his press comment Dr. Araujo stated that the completion of the pending legislation on the above matters would facilitate an early decision on Colombia's loan requests.

Commenting on the multiple exchange tax, Dr. Araujo stated that critics had as their principal arguments against the exchange tax the following three points: 1) that it is an indirect tax which falls on the consuming masses; 2) the tax is preferential and favors only one group of commercial interests; 3) the tax has contributed to increased living costs. Proponents of the multiple exchange tax maintain that such tax must remain in effect until there are adequate tariff reforms to insure the needed protection to national production. It was stated that the tax is only transitory in character and that it forms a realistic basis for tariff adjustment in the pending negotiations to enter GATT. In further justification, Dr. Araujo stated that the tax was a much-needed revenue measure and that the various rates of the multiple exchange tax were in conformity with the increases in all other Colombian taxes. In this connection, he pointed out that since 1931, with the sole exception of tariff duties, all other taxes had shown substantial increases. Depreciation of Colombian currency and the increase in the value of imported merchandise warranted the imposition of the multiple exchange tax.

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Dr. Gutiérrez, in praising the new economic law which was enacted by the Colombian Congress on December 14, stated in a press interview, published in *El Tiempo* on December 15, that the law devaluing the peso by 10 percent to a more realistic base, the approval of a balanced budget, the maintenance of the multiple exchange tax, the individual import quota system, and the quantitative restrictions on imports, the guarantee of prompt international payments, the re-orientation of private credit were all measures which would bring normalization and stability to internal commerce without prejudicing

international markets, especially in the United States. Dr. Gutiérrez stated that, as he informed the local press on November 2, both the Bank for Reconstruction and Development and the Export-Import Bank of Washington were disposed to consider favorably a loan program for Colombia immediately after the adoption of legislative measures which would place Colombia on a sound economic footing.<sup>1</sup> All of these prerequisite to loans from the two banks, Dr. Gutiérrez pointed out, have been met with the present law just enacted.

Respectfully yours,

For the Ambassador:  
DAVID M. CLARK,  
*Commercial Attaché*

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<sup>1</sup> On April 27, 1949 the Export-Import Bank authorized a credit of \$3,057,600.00 (No. 365-B) for goods and services for hotel construction. The International Bank for Reconstruction and Development approved a loan of \$5,000,000.00 to the Colombian Government on August 17, 1949 for purchase of agricultural equipment. Except for the credit of \$10 million authorized to the Colombian Government by the Export-Import Bank on April 13, 1948, no other Bank loans were made to Colombia during 1948-1949.

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821.6363/12-2248

*The Ambassador in Colombia (Beaulac) to the Secretary of State*

CONFIDENTIAL

BOGOTÁ, December 22, 1948.

No. 768

SIR: I have the honor to refer to the Embassy's despatch No. 712 of December 2, 1948,<sup>1</sup> entitled "President and Ministers of Government and Mines and Petroleum are Not too Optimistic that Anything Will be Done by Present Congress Concerning the Petroleum Situation", and to report that the Colombian Congress closed without the House having taken action on the petroleum bill which the Senate passed last year. Under the rules of the Congress, the bill is now dead. The oil companies consider that this development is a net gain for them.

The Government did not present to the Congress any legislation embodying the eight points presented to the President by the oil companies' representatives on November 26. The Minister of Foreign Affairs, Dr. Eduardo Zuleta Angel, in conversation with me, blamed the Government's failure on 1) excessive delay on the part of the companies in presenting their case to the President (although the companies waited three weeks for the Minister of Mines and Petroleum to obtain an audience with the President and then obtained the audience through the Minister of Foreign Affairs) and 2) the timidity of the Minister of Mines and Petroleum. Whatever the reasons, no bill was presented to the Congress which, therefore, took no action.

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<sup>1</sup> Not printed.



Since the closing of the Congress, some of the oil companies' representatives have had conversations with the Ministers of Foreign Affairs, of Mines and Petroleum, and of Government, and a plan has informally been worked out for the oil companies' representatives to establish contact with the appropriate Congressional Committee soon after the first of the year. As already reported, Congressional Committees are now in permanent session, even when the Congress itself may not be in session. The Government has offered to support the eight-point program presented to the President by the oil companies' representatives in the hope that this program, plus an additional point covering royalty and surface taxes, will be approved by the Congressional Committee which can then present it to Congress as soon as it convenes next July. One petroleum company representative has told me that the program also has the support of the President of the Petroleum Council, Dr. Felix Mendoza, although my informant is not familiar with the position of the other Petroleum Council members. The Minister of Foreign Affairs, in conversation with me, has offered to support the plan.

It is the Embassy's intention, discreetly, to support the efforts of the oil companies' representatives. The oil industry brought one hundred million dollars in foreign exchange into Colombia during the years 1945, 1946 and 1947. The Colombian Government continues to complain about Colombia's chronic shortage of dollars which it is endeavoring to overcome through the device of loans to be contracted in the United States.

The Embassy continues to believe that the Colombian Government would improve its credit and would help itself as well as the other democracies if it would agree to establish more satisfactory working conditions for private petroleum companies in Colombia.

The Department of State on September 10 mentioned the subject of petroleum to the Colombian loan negotiators. (Reference Department's Memorandum of Conversation dated September 10, 1948, entitled "Discussion with Colombian Economic Mission of Difficulties Encountered by United States Oil Companies in Colombia".) The Embassy has not been informed that any further conversations on the subject between the Department and the Colombian representatives have taken place. Further, the Department representatives referred only to the labor aspect of the oil companies' difficulties. Labor conditions have improved, temporarily at least, but the deficiencies of petroleum legislation continue to act as a deterrent to large scale exploration and exploitation (Embassy's despatch No. 712, December 2, 1948<sup>2</sup>).

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<sup>2</sup> Not printed.

The Embassy has continued to discuss with the Colombian Government the desirability of improved working conditions for the petroleum companies on the ground that such a development would 1) provide Colombia with needed foreign exchange, 2) otherwise improve Colombia's economy, and 3) constitute a normal act of cooperation with the United States and other democracies.

If the Department will take advantage of opportunities which naturally will be offered to it in the course of conversations concerning loans which Colombia desires to obtain in the United States, and concerning the new proposed Treaty of Friendship, Commerce, and Navigation which the Colombian Government says it wishes to enter into as an inducement for the investment of American capital in Colombia, then the Embassy also will be in a position to continue to urge the Colombian Government to grant the additional facilities the petroleum companies require if they are to invest additional substantial sums of money here.

On the other hand, if the Department should drop the subject it would undoubtedly be interpreted in Bogotá as lack of serious interest on the part of our Government in the future development of Colombia's oil resources. Under the circumstances, there would be little the Embassy could say or do in connection with this subject without damaging its own position.

For the reasons set forth, the Embassy respectfully suggests that the Department continue, on appropriate occasions to urge the Colombian Government to engage in this normal and desirable act of cooperation.

Respectfully yours,

WILLARD L. BEAULAC

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821.24/12-3148

*The Secretary of Defense (Forrestal) to the Secretary of State*

SECRET

WASHINGTON, December 31, 1948.

DEAR MR. SECRETARY: The Service Departments of the National Military Establishment have carefully considered the request of the Government of Colombia for military equipment from the United States, transmitted to me by your letter of 29 October 1948.

It is impracticable to judge properly the adequacy of the forces desired by Colombia for the purpose of maintaining internal stability as reflected by the list of requested munitions. The complexities, prerogatives, and plans of any sovereign nation, of necessity require such decisions to be made by its own leaders.

However, as a guide in determining the propriety of the present request of the Colombian Government, reference has been made to the

recommendations contained in the records of the Bilateral Staff Conversations which were held with all of the other American Republics, except Argentina, during 1945.<sup>1</sup> In general, the recommendations of these Bilateral Staff Conversations provide for armed forces agreeable to the various Latin American countries and considered adequate by them and the United States representatives for the purpose of guaranteeing territorial integrity, maintaining public order and for integration into forces which may be required for hemisphere defense. Consideration was also given to the economy of the country in its ability to support this force. From the overall hemisphere aspect, the size and composition of the forces recommended in the Bilateral Staff Conversations tend to preserve the relative military strengths of the Latin American nations. The recommendations of the Bilateral conferences have been approved by the Joint Chiefs of Staff for planning purposes.

In 1947, in preparation for an interim allocation of equipment amounting to about eight percent of the total recommended, the Bilateral Staff Conversations with Colombia were reviewed unilaterally and no need for modification was indicated. Accordingly, the recommendations of the Bilateral Staff Conversation may be used as a criterion in determining the propriety of Colombia's present request.

In the specific case of Colombia, the recommended size of the post war armed forces approximates 23,000 men with the primary mission of maintaining internal stability. These were apportioned as follows: (a) An Army of slightly less than 20,000 comprising an Army Command Headquarters, 3 Regimental Combat Teams, a Light Battalion Combat Team and miscellaneous small units, (b) an Air Force of approximately 1800 with 41 aircraft of the transport and trainer type to be added to the 68 aircraft on hand, and (c) a Naval Force of about 1300 equipped principally with two (2) destroyers, five (5) gunboats and eight (8) vessels of transport, cargo and patrol types. The presently reported size of all the armed forces is approximately 23,000 including 5000 uniformed police.

Attached as "Tab A"<sup>2</sup> is an itemized comparison of the principal Army weapons requested by Colombia with similar equipment included in the units established in the Bilateral Staff Conversations. The table also shows items of Ordnance equipment received by Colombia under the provisions of Lend Lease or in the Interim Allocation Program. No cognizance is taken of the considerable amount of European equipment now in the hands of the Colombian Army, which should be to a large degree satisfactory for the maintenance of internal

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<sup>1</sup> See bracketed note *Foreign Relations*, 1945, vol. ix, p. 265.

<sup>2</sup> Not printed.



stability. It will be noted in the majority of the items that the present request of the Colombian Government considerably exceeds the needs envisaged by both the United States and the Colombian representatives in the Bilateral Staff Conversations. This statement is predicated to some extent on the assumption that the principal items of Army equipment are intended for that service and not for Navy, Air or police forces.

With respect to the Naval equipment requested by Colombia it is believed that with the exception of the Destroyer Transport (APD) and the Oiler (AO-30,000 barrels) the units requested may be considered as contributing to the maintenance of internal stability by enhancing the mobility of the Armed Forces of Colombia, taking into consideration the limited development of overland communication facilities.

The Air Force requirements of Colombia were previously referred to the Department of the Air Force and by Memorandum dated 20 August 1948<sup>3</sup> the Department of State was advised that the aircraft requested were considered appropriate. Subsequently, action was taken to offer to Colombia such aircraft as were available, through the Field Commissioner for Military Programs, Office of the Foreign Liquidation Commissioner. Details regarding the Air Force equipment are included in "Tab D".<sup>3</sup>

It is considered feasible to assist the Colombian Government in procuring part of the desired Army equipment from commercial sources; however, a complete and detailed study cannot be accomplished successfully in less than several months time and at a considerable monetary cost by the Department of the Army. Consequently, only a rough estimate of the problem has been made, the results of which are indicated in "Tab B".<sup>3</sup> Where desired items are currently in procurement and the price is available, the approximate cost and procurement-lead time are shown. Specific attention is invited to the fact that many items of individual equipment and of civilian application are requested although in accordance with established policies such items have never been made available to Latin American Governments from military sources and are not rightfully military equipment. Desks, typewriters, athletic equipment and similar items may usually be procured commercially without requiring the assistance of the National Military Establishment.

The Department of the Navy is prepared to assist the Government of Colombia in procuring from commercial sources, under the authority of existing legislation, that Naval equipment considered appropri-

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<sup>3</sup> Not printed.

ate. Current procurement prices and lead times are indicated in "Tab C".<sup>4</sup>

Existing legislation requires payment of full procurement costs and in view of current prices, some of which are indicated in the attached tabs, it is questionable whether the economy of Colombia would permit purchases of the scale envisaged. However, it is estimated that such procurement, if undertaken, would not materially affect the current overall procurement program of the National Military Establishment.

The possibility has also been explored of providing the desired equipment from current Army stocks. The results of this study (included in "Tab B") indicate that the majority of the principal items desired are available only in high priority groups comparable to the priority of military aid programs such as Greece and Turkey. The National Military Establishment is unaware of any compelling military necessity for the establishment of such a priority for Colombia or for the preferential treatment of Colombia to the prejudice of other Latin American nations such as Brazil and Venezuela whose requirements in safeguarding vital interests of the United States are more readily apparent. If political considerations so dictate, it is assumed that the Department of State will initiate necessary action for the establishment of a sufficiently high priority for the Government of Colombia.

Sincerely yours,

FORRESTAL

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<sup>4</sup> Not printed.

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AGREEMENT BY THE COLOMBIAN GOVERNMENT TO PRELIMINARY  
RECONNAISSANCE OF THE ATRATO-TRUANDÓ INTEROCEANIC  
CANAL ROUTE

S11F.S12/3-348

*The Secretary of the Army (Royall) to the Secretary of State*

WASHINGTON, March 3, 1948.

DEAR MR. SECRETARY: I am enclosing for your information a copy of a letter of this date which I have addressed to The President, submitting my observations on various interoceanic canal routes and alternative methods of transit, made during my trip of inspection in Mexico and Central America in February 1948.

I shall be pleased to communicate further with you when I have received from the Governor of the Panama Canal his report on the additional investigations in the Republic of Colombia which are discussed in my letter to The President.

Sincerely yours,

KENNETH C. ROYALL

[Enclosure]

*The Secretary of the Army (Royall) to the President of the  
United States*

3 MARCH 1948.

DEAR MR. PRESIDENT: I respectfully submit my observations on various interoceanic canal routes and alternative methods of transit, made during my trip of inspection in Mexico and Central America in February, 1948. In addition to inspecting the present Panama Canal and discussing with the Governor and his assistants the conversion of the existing lock canal into a sea level canal, I looked into the matters covered in the following paragraphs.

*Isthmus of Tehuantepec:* From my aerial reconnaissance, flying at low level over the Isthmus of Tehuantepec, it seemed apparent that it would be impracticable to construct a lock or sea-level canal on this route at reasonable cost. This observation is in accord with the report of the Governor of the Panama Canal which shows that a lock canal at Tehuantepec would be three times as long as the Panama Canal, would cross a divide which is twice as high, and would cost over 13 billion dollars. The report makes no estimate of cost for a sea-level canal at Tehuantepec, but shows that such a canal would involve about six times as much excavation as would be required to convert the present Panama Canal to a sea-level project.

The Tehuantepec route has been considered repeatedly since 1880 as the location for a ship railway, but all engineering studies have shown that a railway capable of transporting modern shipping across the isthmus would be impractical and very expensive. A project of this kind would involve such unprecedented problems of design and construction for foundations, road-bed, bridging, and rolling stock, that its capacity would undoubtedly be limited to small ships. It would be extremely vulnerable to destruction by sabotage and aerial bombing.

The existing single-track railway across the Isthmus of Tehuantepec has heavy grades, numerous curves, light rail (60 pounds), and inadequate terminals on the Gulf of Mexico and Pacific Ocean, and is totally inadequate as a modern means for trans-shipment of cargo. Reconstruction to provide adequate facilities would be very expensive, and even an improved rail line with adequate terminals could not compete with the existing Panama Canal for commercial traffic since any savings of time due to shortening of the ship route would be more than offset by the time required for unloading, handling and reloading of cargo. Furthermore, the use of pallets or standardized shipping cases would not eliminate the necessary delays of trans-shipment, and would



not be practicable for general and miscellaneous cargo, and would in addition probably require ships with especially constructed holds and cargo hatches. The value of such a railway in time of war would be limited, as it would serve only as an emergency means for passage of cargo across the isthmus in the event of blocking of a canal, and like a ship railway, it would be vulnerable to attack and destruction.

*Nicaraguan Route:* This proposed canal route lies in part along the boundary between Nicaragua and Costa Rica. It is a feasible route for a lock canal, although the cost involved would be about one billion dollars more than conversion of the Panama Canal to sea level. A sea level canal along this route would necessarily pass close to Lake Nicaragua, which lies about 110 feet above sea level. Separation of the lake from the canal would involve serious problems of seepage, and stability of embankments and channels. Such a project would have an extremely heavy cost, even if all engineering difficulties could be overcome. Both Nicaragua and Costa Rica would be involved in a canal along this route and political difficulties would be increased by the necessity for dealing with two countries.

*Panama Parallel Route:* One of the routes which has been studied provides for construction of a new sea level canal parallel and closely adjacent to the present Panama lock canal. This proposal would cost about 900 million dollars more than conversion of the present Panama lock canal to a sea-level project. While it is of interest, as it could be built and operated so as to provide the continued use of both the lock and sea-level canals, the advantages are not as real as they appear at first glance. Both canals would have the same harbor and terminal facilities, damage to which would affect both canals at the same time. Further, the continued existence of Gatun Lake required by the lock canal would constitute an additional hazard to the sea-level canal. A breaching of the dikes and dams separating the two canals, by either sabotage or bombing, would flood out the sea-level canal and choke it with large quantities of earth. A sea-level canal thus damaged would probably require a longer time for repair and reestablishment of a navigable channel than would the proposed sea-level conversion canal, not subject to this additional hazard. In addition, during the years of peace, there would be the continued cost of maintenance and operation of a lock canal which would not be needed by commercial traffic.

*Atrato-Truandó Route:* The valleys of the Atrato and Truandó Rivers in Colombia have been studied as a possible route for a ship canal during the present investigation and in a number of previous explorations. This route is 95 miles long as compared with the 51-mile length of the present Panama Canal. Data on the elevation of the divide on the Atrato-Truandó Route, determined by previous recon-

naissance surveys, is not as reliable as that available for some of the other routes, but is sufficiently accurate to indicate an elevation of about 930 feet above sea level. The route appears feasible for either a lock or sea-level canal; although present estimates prepared by the Governor of the Panama Canal indicate that the cost of a sea-level canal along the Atrato and Truandó would be about two billion dollars greater than the cost of converting the Panama Canal to sea level.

Aerial reconnaissance of the Atrato-Truandó Route indicates, however, that terrain on the Atlantic side is particularly suitable for canal construction as excavation through the alluvial valley of the Atrato should be relatively inexpensive. Problems involving control of floods and handling of alluvial deposits might be met by constructing a canal paralleling the lower river to a terminus separate from the mouth of the Atrato and its delta. Further reconnaissance would determine the exact height of divide and the best alignment for a canal. Low excavation cost in the lower reaches on the Atlantic side might offset costs involved in greater length and greater height of divide. In view of these considerations, it would be desirable to make some further field investigations to obtain more specific data on alignment, elevations and geologic formations. The expense of such investigations can be kept to a minimum by use of available small craft and planes of the Army and Navy; and it is understood that the Governor of the Panama Canal has sufficient funds for such a reconnaissance.

The additional investigation described above would, of course, require the approval of the Republic of Colombia. I have communicated with the Secretary of State with a view to presenting the matter to the government of the Republic of Colombia.

Sincerely yours,

KENNETH C. ROYALL

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821.812/3-348

*The Secretary of State to the Embassy in Colombia*

SECRET

WASHINGTON, March 3, 1948—4 p. m.

66. Consistent with permission you recently obtained from Colombian Govt for aerial examination of Atrato-Truandó trans-Isthmian route by Secy Army Royall accompanied by a Colombian officer, Secy Royall has now asked that you request Colombian authorities to grant permission for further preliminary reconnaissance of this route by river, land, and air. Pls request this permission, if you see no serious objection, emphasizing purpose is only to obtain preliminary estimates of costs that might be required so that it will be possible to make a comparison between feasibility of this possible route and others. It would of course be expected that such preliminary observations would

be made with whatever participation Colombian authorities might consider desirable.<sup>1</sup>

MARSHALL

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<sup>1</sup> Ambassador Beaulac informed the Secretary of State in telegram 127, March 18, 3 p. m., not printed, that a request to the Foreign Office was embodied in a note dated March 8 (821.812/3-1848). The Colombian Foreign Minister (Zuleta Angel) granted permission for a preliminary reconnaissance of the Atrato-Truandó area by air, land and river, in connection with investigations being made as to a new interoceanic canal, in a note of August 3, 1948 to the Embassy, not printed. The exchange of notes of March 8 and August 3, 1948 was transmitted to the Department of State by the Embassy in despatch 57, January 21, 1949, not printed (821.812/1-2149). In despatch 767 of December 22, 1948, Ambassador Beaulac reported to the Department that preliminary surveys had been undertaken in the Humboldt Bay area and at Rio Sucio from December 11 to 14, and that the definitive survey of the route from the Atrato to the Pacific would begin on January 7 (821.812/12-2248).



## COSTA RICA

### POSITION OF THE UNITED STATES WITH REGARD TO CIVIL WAR IN COSTA RICA AND INCIDENTS THERE INVOLVING ARMED FORCES FROM NICARAGUA <sup>1</sup>

818.00/3-248 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 2, 1948—noon.

US URGENT

65. Two hours before Congress vote annulling election <sup>2</sup> (reEmbtel 64, March 1 <sup>3</sup>) some fifty uniformed troops and police with armored vehicle machine guns and rifles surrounded house of Dr. Carlos Luis Valverde prominent oppositionist where it is well known Ulate has been staying. House riddled with bullets Valverde seriously wounded one other slightly. Ulate and several companions have presumably taken refuge in a neighboring house. Entire area surrounded by police and irregulars with imminent possibility further bloodshed unless some means worked out remove him to refuge in Archbishop's <sup>4</sup> palace or friendly Legation. Understand Archbishop actively endeavoring effect such arrangement.

Official version Ulate opened fire on police who had come to search for arms. I witnessed preparations for attack and some firing but did not see who shot first.

Valverde taken to hospital in critical condition. At urgent request hospital surgeon I appealed to President <sup>5</sup> permit Red Cross ambulance and personnel evacuate other wounded. Permission granted but no wounded found but two government dead in street.

At midnight I received appeal to arrange safe conduct Ulate and party to Brazilian Legation which offered asylum. I declined suggest-

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<sup>1</sup> For documentation concerning United States policy of non-intervention in the internal affairs of Costa Rica, see *Foreign Relations*, 1947, vol. VIII, pp. 578 ff.

<sup>2</sup> In the election of February 8, 1948, the Administration's presidential candidate, Rafael Angel Calderon Guardia, of the National Republican Party, with Vanguardia Popular (Communist) support, lost to the Opposition candidate, Otilio Ulate, of the National Union party, supported by José Figueres, leader of the Social Democratic Party. The National Congress (composed of a Calderonista majority) did not approve the finding of the Electoral Board in favor of Ulate, and, on the basis of allegations of fraud determined, on March 1, that the election was null and void.

<sup>3</sup> Not printed.

<sup>4</sup> Monsignor Victor Sanabria, Archbishop of San José.

<sup>5</sup> Teodoro Picado Michalski.

ing Brazilian Minister more appropriate and suggesting appeal to Archbishop lend assistance.

Radio has announced decree signed by President last night closing banks March 2 and 3 and press unofficially threatens suspension guarantees if opposition calls general strikes.

Following facts clear (1) uniformed government troops under command Major Tavío<sup>6</sup> with overwhelming force surrounded fired into house where Ulate publicly known to be; (2) despite predictions press radio no suspension of guarantees had been decreed and Calderonista version does not claim troops had search warrant; (3) attack occurred during Congress debate and before vote while galleries patio and street filled with Calderonista crowd demonstrating for annulling election; (4) a prominent citizen seriously wounded perhaps killed by government troops under order.

Following undetermined: (1) whether police intended search for illegal arms as alleged; (2) who fired first shot; (3) whether Tavío had orders from superiors or acted on own responsibility. Of significance is that he or his men obeyed order from President to pass ambulance.

DAVIS

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<sup>6</sup> Lt. Col. Juan José Tavío Silva (Cuban).

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818.00/3-248: Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 2, 1948—5 p. m.

66. At noon today I had informal conversation with President's military aide asking him convey to President my purely personal observations on continued siege of locality in which Ulate (reEmbtel 65 March 2) and his companions have taken refuge pointing out possibility of shedding innocent blood including that of American citizens resident in neighboring houses. Aide told me negotiations continue between Archbishop and government and that Venezuelan Minister has received instructions offer refuge. I suggested desirability withdrawal all irregular military forces and provision adequate safeguards personal safety through regular military forces. Subsequently I learned General René Picado<sup>1</sup> threatens open artillery fire on area tonight if Ulate does not surrender.

In effort ascertain progress negotiations I have just received message from President's secretary stating all negotiations in hands of his brother René this despite apparently reliable reports negotiations with President himself. I have made every effort persuade Americans concerned take elementary precaution of moving elsewhere time being.

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<sup>1</sup> Minister of Public Security.

With Ulate hiding place surrounded plans for general strike if still contemplated not fully materialized though business houses generally shut. Alajuela waterworks damaged by bomb suspending service Pacific railway. Water system town of Desamparados also dynamited. Public services normal in San José. Panair flights suspended Taca flights continue but planes not based here.

Sent Department as 66, repeated CA missions.

DAVIS

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818.00/3-348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 3, 1948—1 p. m.

67. Archbishop told me last evening arrangements concluded evacuate Ulate and party at 10 p. m. under his auspices with military protection. Said fearful irregular troops might attack Ulate in disobedience to orders and asked that I lend moral support by accompanying him. Having been assured arrangements concluded between Costa Ricans without intervention this Embassy I agreed to be present as witness. Reference Embtel 66, March 2.

Then visited Foreign Minister<sup>1</sup> explained my actions in matter emphasizing non-intervention in internal affairs my sole motive being render any possible assistance Costa Rican Government and Archbishop in their efforts avoid bloodshed.

Nine p. m. Foreign Minister called at my house requesting me urge Ulate take refuge Venezuelan Legation rather than be conducted to artillery barracks. I agreed convey message but declined any responsibility for Ulate's decision which I said must be his own free will.

At 9:30 p. m. Archbishop, General René Picado, British and Colombian Ministers and I proceeded to Ulate's hiding place. Archbishop entered alone, conveyed Foreign Minister's proposal reported back unanimous decision Ulate and party accept protected escort to artillery. General Picado senior government representative present accepted. Evacuation completed with order dignity.

Midnight Archbishop summoned me urgently. Told me President had decreed immediate release Ulate continued detention his companions. Archbishop protested release Ulate alone and unarmed at night invited assassination asked twelve-hour delay. He desired me accompany him to President if necessary make face-to-face protest or to artillery to conduct Ulate to Archbishop's palace should immediate release be insisted upon. In belief my presence as witness but not intervener might forestall bloodshed I agreed. At 1:30 a. m. President's

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<sup>1</sup> Alvaro Bonilla Lara, Acting Foreign Minister.



military aide reported Ulate tired and sleeping could remain in artillery undisturbed until this morning.

Sent Department as No. 67 and repeated unnumbered to CA Missions.

DAVIS

818.00/3-348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 3, 1948—4 p. m.

69. This morning Archbishop and Presidential Aide called at office. Archbishop said decision made release Ulate unconditionally upon completion statement being taken by civil judge. Others to be released later following similar statements. Asked me accompany to Artilleria escort Ulate to his house. President's Aide replied affirmatively my question whether government approved my participation. (ReEmbtel 67, March 3.) After admission Artilleria we waited one hour when Ulate and six companions, having signed statements before civil judge, were released. Proceeding in Archbishop's, mine, and one other car supplied by Ulate friends, went to Ulate's house. Near Artilleria and again in front of home procession was surrounded by throng cheering viva Ulate, viva Estados Unidos, etc., plus few Calderonistas cheering their candidate, but no disturbances.

Archbishop subsequently told me President told him this morning opposition has agreed not call strike; Congress will be summoned March 4 to authorize payment election expenses both parties which then will agree on mutually satisfactory President for forthcoming constitutional term.

Sent Department as 69; repeated unnumbered to Buenos Aires missions.

DAVIS

818.00/3-548

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] March 5, 1948.

Participants: Sr. Francisco de P. Gutiérrez, Costa Rican Ambassador

Mr. Paul C. Daniels, Director for ARA

Robert Newbegin—CPA

Ambassador Gutiérrez called this afternoon to leave a memorandum explaining the legal angle of the congressional annulment of the re-

cent Costa Rican election in which Ulate was declared the victor. He explained briefly the subsequent political developments touching specifically upon Ulate's determination not to seek asylum, his temporary detention in the military barracks, and finally the action of Archbishop Sanabria and Ambassador Davis in accompanying Ulate on his release. He said that Ambassador Davis' role had been gratifying to the Costa Rican Government and was, of course, beyond reproach.

Ambassador Gutiérrez stated that, according to information which he had received in a telephone conversation with his daughter in San José, a meeting was being held this afternoon in the Archbishop's residence participated in by Ulate, Calderon Guardia, and Mora,<sup>1</sup> the leaders of the three political parties. He expected an agreement to arise from this meeting in which a first designate to the presidency would be selected <sup>2</sup>—a man agreeable to all parties, and one who could act in the best interests of Costa Rica. He expressed the opinion that no further election would be held since there was insufficient time to do so before April 1 which was the legal date. Accordingly, when a new administration came into existence, the first presidential designate would take office. Ambassador Gutiérrez apparently discounted any disagreement in the selection of a first designate.<sup>3</sup>

R[OBERT] N[EWBEGIN]

<sup>1</sup> Manuel Mora Valverde, Secretary General of the Vanguardia Popular party.

<sup>2</sup> In despatch 105, March 5, not printed, Ambassador Davis noted that while Congress invalidated the presidential elections, it did not call for new ones, hence, the course of action most likely to be followed would be the election of three alternates at the opening session of Congress on May 1, and, in absence of a "legally elected" president, it would then become incumbent upon the first alternate to assume the presidency on May 8.

<sup>3</sup> In despatch 105, March 5, Ambassador Davis stressed the concurrence of opinion that something had to be done soon to break the deadlock; the Calderon-Vanguardia group, he said, was definitely known not to be averse to a compromise and that attempts to reach such a compromise through the mediation of prominent citizens were known to have been under way since shortly after the elections; Mr. Ulate, however, and the group immediately surrounding him, remained adamant, believing that by just biding time they could eventually achieve their objective.

S18.00/3-1248 : Telegram

*The Secretary of State to the Embassy in Costa Rica*

CONFIDENTIAL

WASHINGTON, March 12, 1948—5 p. m.

52. Dept is much concerned over recent political trends in Costa Rica and possibility of further deterioration into bloodshed which might develop into armed civil struggle. You may in your discretion inform President Picado of this country's deep concern over situation and

express our hope that problem may be solved within limits traditional constitutional processes in observance of which Costa Rica has justifiable pride. In event you consider it desirable to approach Picado along these lines it is suggested that you impress on him our hope that he will use his influence to the end that both contending candidates maintain existing truce for such period as may be necessary to find solution to crisis.

You should stress that your conversation is entirely informal and that our views are expressed solely as those of a friendly power which has long admired Costa Rica's democratic tradition and considers it important that it be maintained in this critical world period.

MARSHALL

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818.00/3-1348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 13, 1948—noon.

86. Notified by PRA representation by radio phone March 12 of seizure 3 PRA tractors by unidentified group to form road block; communicated Foreign Minister informally desirability ascertain facts and obtain return tractors (reEmbtl 85, March 12, 4 p. m.<sup>1</sup>). Mobile unit departed about mid-day and late afternoon engaged with Opposition elements under José Figueres. Final outcome unknown but several government wounded in local hospital. Papers radio feature account firing by Figueres on US Government jeeps improperly identified as this Embassy's actually in use by Geodetic Survey on mapping plan and driven by two Costa Ricans. Three TACA planes with two American pilots immobilized at San Isidro del General Field. Conflicting stories regarding possession of field by Government or Opposition, latter more probable. Pilots reported safe. Government forces apparently have not reached Millsville Camp since PRA representative at 9:30 a. m. today informed me by radio all quiet there.

ReDeptel 52, March 12 while fully considered do not believe useful communicate President this point. Department's position made known by me informally to elements both sides conflict and on several occasions to Foreign Minister. View continued effort to put down Figueres rising, approach to Government now felt possibly not productive.

Apparently thus far position taken Figueres' actions not in accord orders of Opposition directors and therefore negotiations for settlement disputed elections continue. Vanguardia active in issuing pro-

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<sup>1</sup> Not printed.



vocative announcements radio calling all members immediate support of government.

Sent Department 86, March 13, Noon; repeated CA Ministers.

DAVIS

818.00/3-948 : Airgram

*The Secretary of State to the Embassy in Costa Rica*

WASHINGTON, March 15, 1948.

A-44. Following is translation of cablegram received by President Truman on March 9, 1948 from Otilio Ulate:

"I have the honor to inform you that recent actions of His Excellency United States Ambassador Davis, have won gratitude of Costa Ricans and I avail myself of this opportunity to request you to consider the fact that arms furnished by United States Government for continental defense are being used to kill Costa Ricans as they have been placed in the hands of the communist party as a result of a *coup d'état* staged by the majority of the Congress against the will of the people expressed in the elections of the eighth of February. Said majority is composed of the official political party and the communists. With sentiments of high consideration, I am, sincerely yours, Otilio Ulate, President-elect of Costa Rica."

The Embassy is authorized in its discretion to make appropriate reply.

MARSHALL

818.00/3-1548 : Telegram

*The Secretary of State to the Embassy in Nicaragua*

CONFIDENTIAL

WASHINGTON, March 16, 1948—6 p. m.

42. It should be understood of course by Somoza<sup>1</sup> that this Govt cannot take any official position vis-à-vis *de facto* Nicaraguan Govt on question of latter's assistance to Costa Rican Govt (urtel 61, March 15<sup>2</sup>). At same time no objection is perceived in event you should have further informal conversations with Somoza, in your recalling obligations of American Govts to refrain from intervening in internal

<sup>1</sup> Anastasio Somoza, Nicaraguan President, and Director, National Police (*Guardia Nacional*).

<sup>2</sup> Not printed; the Chargé in Nicaragua (Bernbaum) reported that General Somoza appeared "genuinely alarmed over threat to self from successful Costa Rican revolt" and anxious to aid the Government but fearful that intervention would jeopardize Nicaraguan recognition prospects. For documentation on the question of Nicaraguan recognition, see pp. 99 ff.

affairs of other American republics. (See Depcirtel Jan. 17.<sup>3</sup>) It should be obvious to Somoza that the US has scrupulously observed its obligations in this sense ever since the withdrawal of recognition last May and that it is confident that other countries will wish to follow a similar policy.

Sent to Managua, repeated to San José and Guatemala.

MARSHALL

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<sup>3</sup> *Ante*, p. 158.

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818.00/3-1948

*Memorandum of Conversation, by the Director of the Office of  
American Republic Affairs (Daniels)*

[WASHINGTON,] March 19, 1948.

I called on Señor Sevilla Sacasa <sup>1</sup> at his residence last night at nine o'clock by appointment made at my initiative. We discussed at some length the unsettled conditions in Costa Rica.

I referred to rumors that men and arms had entered Costa Rica from Nicaragua to assist the government in quelling the rebellion. Señor Sevilla Sacasa confirmed that some individual Nicaraguans had in fact gone to Costa Rica to assist the government, but stressed the liberty of the individuals concerned to do that, rather than a policy of official assistance by the Nicaraguan Government. With respect to arms, he said that naturally Nicaragua was holding on to all it had because of fear of Guatemalan aggression.

I expressed the view that it would be most unfortunate if the internal political dispute within Costa Rica were to spread over the borders of that country and involve other Central American states. Señor Sevilla Sacasa said he was in entire agreement, and expressed with some vehemence, criticism of President Arévalo of Guatemala for sending in help and munitions to Costa Rican rebels. He said that the Guatemalan Government was trying to set up a friendly régime in Costa Rica so as to be in a better position to dominate Nicaragua as well as Honduras. In such circumstances, he said, it would not be unnatural for Nicaragua, and possibly Honduras and El Salvador, to take definite measures.

I told Señor Sevilla Sacasa that earlier in the day I had already expressed similar concern to the Guatemalan Ambassador.

I asked Señor Sevilla Sacasa if, by any chance, he had any suggestions as to what steps might be taken with a view to the re-establishment of normal conditions. Señor Sevilla Sacasa referred to the

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<sup>1</sup> Guillermo Sevilla Sacasa, Nicaraguan Ambassador in the United States.

Habana Convention of 1928,<sup>2</sup> and thought that it would be well if the various countries, especially Guatemala, would abide by its provisions. I said that was the view held by the Department.

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<sup>2</sup> For convention between the United States and other American Republics on duties and rights of states in the event of civil strife, signed at Habana, February 20, 1928, see Department of State Treaty Series No. 814, or 46 Stat. 2749.

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S18.00/3-1948

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] March 19, 1948.

Participants: Sr. Francisco de P. Gutiérrez, Ambassador of Costa Rica

Mr. Paul C. Daniels, Director for ARA

Robert Newbegin—CPA

Ambassador Gutiérrez called this morning to bring Mr. Daniels up to date on Costa Rican developments. He stated that at present the Figueres' group of Ulate's supporters represented the extreme right. The majority of Ulate's supporters and the majority of the Republican party constituted the center, while the Vanguardia was the extreme left. He stated that what was needed was a solution agreeable to the center group, and that if one were reached, it was to be assumed that the extreme right and left would normally be an unimportant factor. He stated categorically that neither Calderon nor Ulate would become president.

Ambassador Gutiérrez said that his Government was much concerned over Guatemalan intervention. He added that his Government had suspected that Guatemala was playing a part in present disturbances, but had had no proof until yesterday when it had seized arms packed in boxes with the legend "República de Guatemala, Secretaría de Defensa Nacional". Others apparently bore the mark of the "Quetzal", the Guatemalan national bird. He mentioned the fact that this had been brought to the attention of the diplomatic corps by Foreign Minister Bonilla Lara. He suggested that Arévalo<sup>1</sup> was interested in conquering all of Central America.

In passing, Ambassador Gutiérrez referred to the Belize dispute<sup>2</sup> and Guatemala's request for Costa Rican support. He said it was folly to anticipate that Costa Rica would take a position against her friend Great Britain and in favor of Guatemala, who was hostile to Costa Rica.

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<sup>1</sup> Juan José Arévalo, President of Guatemala.

<sup>2</sup> For documentation on this subject, see p. 81.



The question of assistance from Nicaragua was touched upon. The Ambassador defended with some heat the action of the Nicaraguan Government and said there was no parallel whatsoever between the Guatemalan and the Nicaraguan positions in this instance. He pointed out that under the Habana Convention Guatemala was obliged not to assist the opposition group, whereas the same Convention provided for the right of a country to defend itself and that it was entirely proper for a friendly country to provide assistance to a recognized Government upon request.

Ambassador Gutiérrez then inquired what the position of the U.S. would be if the Costa Rican Government asked us for military support. Mr. Daniels parried this question as being hypothetical and expressed the hope that he would not be given any more problems.

Ambassador Gutiérrez then reverted to the domestic angle of the crisis and suggested that it would be very desirable for the U.S. to do something about it. Mr. Daniels asked what we might do taking into consideration our fixed policy of non-intervention in internal affairs. . . . It was agreed that it would most certainly be desirable to find a solution agreeable to the major parties and the Costa Rican people at this time rather than waiting until a decision was reached on May 1 by the Congress in accordance with normal constitutional provisions.

Mr. Daniels in emphasizing that we did not wish to intervene in Costa Rica's internal affairs stated that he would take the possibility of an approach to Picado under consideration. He said, if anything was done, it would have to be on the basis of Ambassador Davis' refraining from proposing any specific solution.

R[OBERT] N[EWBEGIN]

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818.00/3-1648 : Telegram

*The Acting Secretary of State to the Embassy in Guatemala*

SECRET

WASHINGTON, March 19, 1948—7 p. m.

116. Deep concern is felt by Dept over reports indicating official Guatemalan arms and ammunition being used in Costa Rica (San José telegram to Dept, No 98, March 18<sup>1</sup>). You are requested to seek early interview with President Arévalo in order to refer to these reports and obtain statement Guatemalan position. In this connection Dept refers again to Depcirtel Jan 17.

THORP

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<sup>1</sup> Not printed.

818.00/3-2148 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, March 21, 1948—noon.

105. Conformity Department's instruction contained Deptel 64, March 19<sup>1</sup> I called on President last evening at artillery barracks where he is residing during present emergency. I conveyed sense of Department's instruction to which he replied that he personally has only one desire which is to complete term of office and then to abandon politics entirely. He expressed confidence in governments military position but volunteered few details. Said believed political compromise still possible. . . . Added that any of the numerous names mentioned for President Designate would be entirely acceptable to him and felt the same true for Paco Calderon<sup>2</sup> although he had not discussed matter recently or even seen Dr. Rafael Angel Calderon.

Despite repeated attempts I failed to elicit any suggestion he would take any initiative to bring about peaceful settlement. Confined himself to statement only deputies could reach accord acceptable to Congress.

President then said he would be grateful if I could find some means of facilitating a settlement to which I replied that should that be possible I would do anything I could but felt the matter essentially one for Costa Rica and Costa Ricans.

Re Guatemalan participation said government convinced arms had been furnished Figueres but no evidence showing whether Arevalo himself involved. Said Guatemala had sent reply which was not satisfactory consisting only of denial of all facts. Had not further discussed matter with Foreign Minister whose only instruction had been to raise a hullabaloo which he felt might be effective in frightening Guatemala into not permitting further dispatch of arms. Said that Nicaraguans are serving in Costa Rican ranks just as Guatemalans and others in Figueres forces and in parting added that in all frankness wished to say if he could obtain planes from Nicaragua he would do so but so far had met with refusal. I found him obviously tired and showing deep strain though he appeared optimistic regarding military outcome. . . . He asked that I convey to Department message that he hoped Department would impress upon Arevalo desirability

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<sup>1</sup> Not printed; Acting Secretary Thorp authorized Ambassador Davis to call on President Picado and to state that in conformity with well known United States policy he did not wish to intervene in any way in Costa Rican political affairs, and had no specific solution to offer, but was merely expressing hope that a solution of the political situation might be reached at the earliest possible date.

<sup>2</sup> Col. Francisco (Paco) Calderon Guardia, brother and campaign manager of Angel Calderon Guardia, presidential candidate.

avoidance further interference in Costa Rican affairs. I said I would do so.

DAVIS

818.00/3-2248 : Circular telegram

*The Secretary of State to Diplomatic Representatives in the American Republics*

CONFIDENTIAL

WASHINGTON, March 22, 1948—6 a. m.

US URGENT

You are requested inform Govt to which you are accredited that this Govt has received info fr Gen Somoza that he is planning to send by air 1000 troops of Nicaraguan Guardia Nacional to San José to assist Costa Rican govt. In view time element involved which has not permitted prior consultation with other American republics, US Chargé at Managua has been instructed inform Somoza unofficially our deep concern over intervention by any foreign govt in Costa Rican internal affairs and our feeling that such intervention is particularly regrettable on eve Bogotá Conference.<sup>1</sup>

Pls express to govt to which you accredited hope of US govt that they will take such action as they deem advisable, and as may be appropriate under present circumstances in which many of other American republics do not recognize Nicaraguan *de facto* regime.

Following recent charge by Costa Rican Govt that Guatemalan arms have been found in possession of opposition group, US Govt has instructed US Amb at Guatemala to request from Guat Govt statement its position.<sup>2</sup> Guatemalan Govt is understood to have denied directly to Costa Rican Govt that it has engaged in any such intervention.

MARSHALL

<sup>1</sup> Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948; for documentation on this subject, see pp. 1 ff.

<sup>2</sup> In telegram 162, March 24, 11 a. m., not printed, Ambassador Kyle stated that President Arévalo had told him the previous evening that although he personally sympathized with the Figueres movement in the belief that democracy had been corrupted by the Picado regime, his Government's policy was that of neutrality and non-intervention (818.00/3-2448).

818.00/3-2248

*Memorandum of Telephone Conversation, by the Deputy Director of the Office of American Republic Affairs (Woodward)*

CONFIDENTIAL

[WASHINGTON,] March 22, 1948.

Upon the basis of information received in a telegram from Managua, Mr. Woodward telephoned Señor Sevilla Sacasa and ex-



pressed the deep concern of the United States Government that General Somoza was planning to send 1000 members of the Nicaraguan National Police into Costa Rica to intervene in the disturbed conditions in that country. Mr. Woodward told Señor Sevilla Sacasa that the United States Government was very much afraid that such intervention would have an inflammatory effect.

Señor Sevilla Sacasa reiterated several times the view of the Nicaraguan Government that this "assistance to a friendly government in response to a request from the Chief of State of that government" did not constitute "intervention". He also reiterated several times that the Communists had turned against President Picado and that General Somoza's assistance was intended to protect both Nicaragua and Costa Rica from Communism.

Mr. Woodward replied with respect to the first point that the United States Government could only consider such military participation in the affairs of a neighboring country as "intervention" in the absence of any clearly defined provision in inter-American agreements for such "assistance", and with respect to the second point, the information concerning a supposed sudden turning of the Communists against the Picado Government was at variance with the reports received by the Department of State.

Señor Sevilla Sacasa said that he would telephone his Government promptly and would inform Mr. Woodward of his Government's response.<sup>1</sup> He stated repeatedly that the Nicaraguan Government naturally wishes to cooperate to the fullest possible extent with the United States Government.

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<sup>1</sup> In a later telephone conversation on March 22, Mr. Sevilla Sacasa informed the Chief of the Division of Central America and Panama Affairs (Newbegin) that he had been authorized by "the President" to state that, in view of the position of the United States Government, which had been brought informally to his attention, Nicaragua would follow a "hands off" policy, despite the official request of President Picado. Mr. Newbegin stressed the undesirability of intervention, which might invite similar action on the part of others (S18.00/3-2248).

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S18.00/3-2548 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 25, 1948—1 p. m.

116. On instructions from President and with specific request it be considered confidential between me and my government, Foreign Minister last night told me former changed position of regarding question of selection first designate as purely a matter between two major parties and now has taken active role in endeavor work out satisfactory compromise. Appointed Bonilla Lara and Minister Gov-

ernment Quesada to endeavor obtain agreement on competent person. Actual negotiations and detailed conversations carried out by Fernando Palau, former journalist on *Prensa Libre*. Thus far conversations not far advanced due insistence Ulate on selection person not previously connected with public life while President insists necessity figure having certain Parliamentary support and experience management political affairs.

Bonilla Lara said every effort being made push matters through this weekend when business banks et cetera closed for Holy Week. Said majority Congress favorable and considered once candidate agreed upon deputies would give President written pledge ratify selection May first. Foreign Minister appeared neither optimistic nor unduly pessimistic. However names he mentioned have all already been considered in earlier discussions under auspices Bankers Association without success. Nevertheless possible agreement be reached due urgency arising present political military situation.

Sent Department only.

DAVIS

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818.00/3-2548 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, March 25, 1948—5 p. m.

118. As partially indicated numerous telegrams since outbreak armed hostilities, Embassy repeatedly called upon protect US Government property and personnel in public roads camps. Each instance when information received by radio-phone San José public roads office re personal danger, attempted requisitions, lack adequate protection and other threats, Embassy has made representation to Foreign Office which usually gets action from proper authorities. Nevertheless, either through lack complete control police other authorities areas outside capital or due general supine attitude such protests have elicited only *ad hoc* relief and some gasoline and tires have actually been taken. Small number American employees endeavoring preserve US Government property valued at approximately three million dollars but at some personal risk. In view ineffective results Embassy's constant efforts thus far, does Department have suggestion other course of action.<sup>1</sup>

DAVIS

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<sup>1</sup> Acting Secretary Lovett informed Ambassador Davis in telegram 75, March 29, 6 p. m., not printed, that Ambassador Gutiérrez had been informed of the concern of the Department of State for lack of adequate protection of United States property and particularly of United States personnel engaged in guarding it, and that while the Department had no specific suggestions to make it was confident the Embassy would continue its efforts in this respect (818.00/3-2548).

818.00B/3-2648

*Memorandum by Mr. William Tapley Bennett, Jr., of the Division of  
Central America and Panama Affairs*

SECRET

[WASHINGTON,] March 26, 1948.

The attached despatch from the Embassy at San José<sup>1</sup> provides an excellent appraisal of the extent of communist participation in the present Costa Rican political crisis. A summary of the despatch is submitted as of particular interest in connection with the forthcoming conference at Bogotá and possible informal approaches there by other Governments with respect to the Costa Rican situation.

Communism in Costa Rica, operating under the name of Vanguardia Popular since the 1943 Comintern dissolution, today occupies a position of importance far out of proportion to its numerical strength. With an estimated 7,000 militant members, representing less than 1 percent of the total population of the country, Vanguardia was successful during the recent political campaign in increasing its representation in Costa Rica's unicameral Congress to at least 6 and possibly 8 seats out of a total of 54. Since the other two parties are evenly matched with about 23 seats each, the communists have thus been successful in obtaining an effective balance of power in the Congress.

Vanguardia's influence on the National Republican (administration) party is paramount. It constitutes the bulk of the Government's support today. The Embassy describes Vanguardia as being both directly and indirectly responsible for the present state of chaos and uncertainty in Costa Rica. The Vanguardia leader, Manuel Mora, who is on intimate terms with candidate Calderon, appears to have been primarily responsible for stiffening the will of the latter (who had conceded defeat on the night of the election) to resist a compromise solution, and Vanguardia propaganda has steadily endeavored to sabotage negotiations to that end.

Aside from its congressional position, the infiltration of Vanguardia Popular into the machinery of Government is summarized as follows:

*Armed Forces.* With the addition of hundreds of irregular troops (Mariachis) in the present crisis, communist elements now constitute some 70 percent of the police and army. Recent events have shown beyond a doubt that the primary allegiance of these irregulars is to their communist leadership rather than to the Government. The Mariachis replaced the regular police on missions where brazen disregard of the law was a prerequisite. Acting under orders which have apparently emanated from the Calderon and/or Vanguardia headquarters rather than from the Government, they have spread a reign of terror unparalleled in Costa Rican history.

<sup>1</sup> Despatch 128, March 17, 1948 from the Embassy in Costa Rica, not printed (818.00B/3-1748).



*Social Security Administration.* Except for a few top positions, the great majority of posts in the administration is held either by Vanguardia members or individuals approved by Vanguardia. Dr. Rudolf Pomeranz and his wife, both international communists of Polish nationality, spent two years in the administration indoctrinating their fellow-communists before returning to Poland last year.

*Transport.* The Department of Public Works contains several hundred Vanguardia members. In the Government-owned Pacific Railway there is a not unduly large but important number of Vanguardistas, especially in the San José shops.

*Communications.* Between 20 and 25 percent of the personnel in the general telegraph office at San José and approximately 15 percent of the employees in the general post office in San José are controlled by Vanguardia.

The Embassy concludes that one of Vanguardia's greatest achievements has been the replacement of members of the Costa Rican middle class in Government positions by Vanguardia members. Non-government facilities owned by Vanguardia include a radio station, a newspaper a sound truck and other expensive activities.

The Embassy states that the situation of uncertainty and insecurity which now exists in Costa Rica is in many respects similar to that prevailing today in Eastern Europe. While this estimate may be a bit overdrawn, it is perhaps worthwhile to recall that Haya de la Torre of Peru, in a recent statement to the United Press, described Costa Rica as "the Czechoslovakia of the Western Hemisphere".

S18.00/4-148

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL  
No. 152

SAN JOSÉ, April 1, 1948.

SIR:

In view of the very obvious deterioration of Costa Rica's traditional democratic mode of life and the effect which this is bound to have on the future, it is believed appropriate to point out certain evident trends. . . .

[Here follow remarks on the National Republican-Vanguardia Alliance and the Opposition.]

*Trends with respect to the United States*

As has so often been the case in the past, the attitude of the United States in connection with the present conflict is being condemned for a number of reasons.

In government circles, the United States is condemned for not hav-

ing permitted, in the past, the exportation of a greater number of fire-arms to Costa Rica. There also exists a latent feeling that Uncle Sam might have been more generous in helping the government out of the financial quagmire in which it has found itself during the past several years.

There is a group of people on both sides who feel that a statement or two, made at the appropriate time and dropped into the proper ears might have prevented not only the present political deadlock but also the civil war and bloodshed. It is surprising to note how many otherwise perfectly sound citizens simply cannot believe or understand that the United States is bound to a policy of scrupulous impartiality. That we are carefully avoiding any act, deed or expression which might possibly be interpreted as interference in the internal affairs of another nation. By this group we are condemned for our failure to come to the rescue in a situation which Costa Ricans themselves have not been able to solve.

Many people within the Opposition hold the United States primarily responsible for the current situation with the allegation that we armed the government through our lend-lease arms. This obviously is a case of crass ignorance concerning the quantity of lend-lease arms originally furnished Costa Rica, which is so small that it could not have affected the situation either one way or the other. These people are so set in their belief that the very words lend-lease are regarded as a curse which has befallen the country and for which the United States is being blamed consistently.

Respectfully yours,

For the Ambassador,  
ALEX A. COHEN  
*American Vice Consul*

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818.00/4-648 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 6, 1948—6 p. m.

133. In long frank conversation April 5 Foreign Minister speaking in name of President Picado expressed bewilderment at US attitude which inexplicably appears unfriendly to government Costa Rica. Personalizing he alleged Picado administration, like previous Calderon,<sup>1</sup> had expelled Germans at our request although due close family ties with influential Costa's occasioned President serious embarrassment [*sic*]. When government which did US this favor now des-

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<sup>1</sup> Rafael Angel Calderon Guardia, President 1940-1944.

perately needs arms finds US blocks efforts every turn. Figueres got "tons" arms munitions from Guatemala and persistent but unverified rumors getting others from Panama. Unfair prevent government acquire desperately needed modern arms match his. Government tried "purchase" arms Nicaragua, Honduras elsewhere but US intervened each time.<sup>2</sup> As to Nicaragua stated blandly effort was only to buy arms and Somoza's suggestion *guardia* be sent was rejected. I explained our well known policy non-intervention local disputes with special emphasis localize conflicts and referred obligations America nations non-intervene. Also factual account Somoza's own version proposed *guardia* participation. Stated, however, much we regret strife within any country and desire assist every proper way restore peace prosperity convinced basis long experience if internal conflict should arise is best for people in long run settle it among selves rather than risk spread conflict to neighbors. Assured him basis our policy and activities is sincere friendship for people of Costa Rica. Said in reporting conversation I would ask instructions containing Department's statement policy which could show him since my personal interpretation might be incorrect.

Believe foregoing points to realization by government situation desperate unless outside supplies available. Since Foreign Ministers' complaint introduced by statement Archbishop visit to Figueres fruitless therefore government has no recourse but fight to end with less efficient armament than that obtained by Figueres from abroad. René Picado left for Mexico April 5 to purchase arms.

DAVIS

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<sup>2</sup> See memoranda of conversation, April 13, pp. 508 and 509.

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818.00/4-748 : Telegram

*The Acting Secretary of State to the Embassy in Costa Rica*

SECRET

WASHINGTON, April 7, 1948—6 p. m.

79. You may bring to attention of Costa Rican FonMin, Dept's circular telegram March 22, 1948, six a. m. relative our conversations with both Nicaragua and Guatemala. You should inform him that these actions have been accompanied by other informal approaches to both Govts urging adherence to various non-intervention agreements. You may further express to him Dept's regret that our action, which has been guided solely by desire to localize purely Costa Rican domestic situation and to avoid Costa Rica becoming scene of conflict of opposing outside interests, has been interpreted as being in any way un-



friendly to Picado Govt. U.S. attitude has been guided solely by friendship for and interest in Costa Rica and desire that she reach promptly her own settlement of her present problem without outside interference.<sup>1</sup>

LOVETT

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<sup>1</sup> Ambassador Davis replied in despatch 172, April 9, not printed, that he had called on Acting Minister Bonilla Lara on that date and repeated to him orally the substance of the Department's telegram 79; Mr. Bonilla Lara's only comment was that he thought General Somoza had somewhat misrepresented the matter, for the Government of Costa Rica had only sought to purchase arms, not to borrow any army, and had, in fact, rejected Somoza's offer of men as being "inconveniente" (S18.00/4-948).

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S18.00/4-1148 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 11, 1948—6 p. m.

138. This afternoon Bonilla Lara called upon me bring request of government utilize my good offices bring about acceptable political arrangement resolve constitutional necessity having presidential designate May 8. If arrangement acceptable to Figueres this would end both political and military difficulties; if not acceptable to Figueres it would represent feeling majority directors political parties, desire of government and approval of Congress. Preliminary idea differs little in essence from negotiations under auspices Archbishop. . . . Suggested possibility preliminary conferences certain leaders 3 parties ascertain their opinions.

I said naturally could take no action without previous consultation Department assuring Minister desire US satisfactory settlement by Costa Ricans for Costa Rica. Pointed out extreme delicacy of entire subject since almost inevitable appearance intervention. Suggested before further consideration would like to have for transmission Department assurance; (1) all parties agree to seek agreement with such encouragement or advice I could offer, (2) bases for agreement in fundamental factors be previously decided upon, and (3) agreement reached be arrived at by mutual agreement not imposed in any manner whatever by US. Added difficulty of separating purely political from necessity of military settlement expressed belief Figueres would have to indicate at least agreement that if satisfactory the settlement would be accepted by him and not rejected as was Archbishop's on basis no political compromise was admissible.

Foreign Minister expressed difficulties obtain Figueres views left me promising consult leaders 3 parties and endeavor ascertain indication

Figueres thoughts if known to his intimates. He said neither Calderon nor Ulate would be consulted, former because he is completely inadmissible politically and latter not available as in hiding. I held out no open hope but naturally indicated that if Department approved and satisfactory conditions could be worked out indicating possibility of solution arrived at by Costa Ricans in their own ultimate interests I would be glad to accord such assistance as lay within my power.

Two hours later Minister again called upon me stating he came on behalf President urge that I in some manner communicate with Figueres ascertain whether willing enter conversations for political and military settlement. If agreeable government would give full guarantees to emissary proceed San José for this purpose and return Figueres lines. Despite natural reluctance proceed prior consultation Department general situation such that I have agreed endeavor meet Figueres April 12 or following day ascertain his views. I have not committed myself further. Military situation state flux. Port Limon taken by Figueres forces April 11 after abandoning San Isidro no longer apparently of sufficient military value to justify his holding it. Government DC-3 (LACSA) plane on bombing mission crashed killing Wilson, Canadian pilot, several others. Embassy learns reliably high military officers fear breakdown civil order San José with widespread looting arson. This very possibly behind mediation efforts.

DAVIS

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818.00/4-1248 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET      US URGENT

SAN JOSÉ, April 12, 1948—1 p. m.

142. Foreign Minister calling meeting chiefs Mission 2 p. m. indications request intervention Corps. Thanked me efforts mytel 138, April 11, stated events developed to point President believes only alternative house to house defense San José place safety city hands Diplomatic Corps.<sup>1</sup>

Vanguardia and Calderon factions issuing urgent radio calls all supporters gather CTCR headquarters. Just informed Telephone Central taken over by Vanguardia and forcing all politically doubtful operators leave. Fighting apparently progressed from Cartago now at Tres Rios.

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<sup>1</sup> The Costa Rican Government also asked the Diplomatic Corps, if possible, to arrange a settlement of the general political problem; the Corps chose the Papal Nuncio, American, Mexican and Panamanian Ambassadors and the Chilean Chargé (secretary and *rapporteur*) to attempt to comply with the Government's request, according to telegram 143, April 12, 4 p. m., not printed, from Ambassador Davis (818.00/4-1248).

Sent Department 142; repeated Central American Missions. Communication to Limon cut.

DAVIS

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818.00/4-1348

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

SECRET

[WASHINGTON,] April 13, 1948.

Participants: Sr. Francisco de P. Gutiérrez, Ambassador of Costa Rica  
Mr. Robert A. Lovett, Acting Secretary  
Mr. Robert Newbegin, CPA

Ambassador Gutiérrez opened the conversation by stating that he had received a letter from President Picado in which the latter had revealed himself as "broken hearted". He had always been a strong friend of the United States. Costa Rica had declared war immediately following the attack on Pearl Harbor. Picado represented the best democratic tradition and now he found himself through the action of the U.S. unable to obtain arms for his Government. The Ambassador gave a brief review of developments leading up to the present conflict in Costa Rica, and said that our action in discouraging intervention in Costa Rica had resulted in the inability of the Government to obtain arms while at the same time it was not effective in preventing the Opposition from receiving them from Guatemala. He predicted that the present situation would develop into a Central American conflict.

The Ambassador was informed that the action taken by this Government was designed to prevent Costa Rica from becoming a battle ground. It was pointed out that he had been kept informed of our action which briefly consisted in expressing our concern to Somoza over his proposal to send a thousand troops to Costa Rica, and expressing our concern to Guatemala over reports of Guatemalan military assistance to the Opposition. We had then informed the other American republics of our action urging general nonintervention.

The Ambassador referred specifically to a shipment of arms which was assembled for the Costa Rican Government in Mexico and was about to leave when the shipment was cancelled by the Mexican authorities. He said that he now had word (although not directly from his Government) that Guatemala was responsible for the arrival of a vessel at Puerto Limon transporting 400 fully equipped men.

The Ambassador declared that he had been in touch with the Costa Rican Under Secretary for Foreign Affairs Fournier in New York and that the latter was preparing a protest to the Security Council



charging Guatemala with intervention. He said that he anticipated that the protest would be filed this afternoon, but that he expected to speak with Fournier by telephone about 2:00. He asserted that he and Fournier had decided on this procedure in as much as a number of the members of the Governing Board of the Pan American Union were in Bogotá.

Mr. Lovett suggested that the United Nations machinery was cumbersome and that immediate action on the part of the Council could probably not be expected. The Ambassador replied that he saw no other course to follow. It was his understanding that the Figueres forces were within a few miles of San José last night and were probably within the city limits by this time. He was particularly anxious to avoid the destruction of San José. The Ambassador said that while he did not wish to be critical of our policy he felt that the United States might have taken a much stronger stand and have told both the Government and the Opposition that it wished to see bloodshed avoided. He was informed that Ambassador Davis had done just this, and that this Government, of course, was anxious to do everything proper to avoid the continuation of the conflict and of further bloodshed.

The Ambassador was then told that word had been received by the Department from the Embassy in San José that the Costa Rican Government had appealed to the Diplomatic Corps to protect San José from destruction and to endeavor to arrange an agreement with Figueres. The latter had designated a number of its members, including Ambassador Davis, to do whatever was possible. The Ambassador was asked whether he and Fournier knew of this development at the time of drawing up the proposed protest. The Ambassador replied that he did not, since telephonic communication with his Government had been impossible yesterday and today. He said he would discuss the matter further with Fournier.

R[OBERT] N[EWBEGIN]

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818.00/4-1348

*Memorandum of Telephone Conversations, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

SECRET

[WASHINGTON,] April 13, 1948.

I called Ambassador Gutiérrez at 1:40 with reference to his conversation with Under Secretary Lovett this morning. Ambassador Gutiérrez was informed that a search of the Department's files failed to reveal any single instance in which this Government had specifically

requested any other American Government to refrain from supplying arms to the Costa Rican Government. He was informed again that the only incidents which we had taken up directly were the alleged Guatemalan aid to the Opposition and Somoza's proposal to send a thousand troops into Costa Rica. Mention was also made again of our approach to the other American Governments with a view to preventing intervention in the Costa Rican situation. It was emphasized that this was quite distinct from asking other governments to refrain from sending any supplies to the Costa Rican Government when such supplies were requested by the latter.

Inquiry was made of the Ambassador as to the facts in the Mexican case to which he had previously referred.<sup>1</sup> He stated that he had received this information from the President and that the latter "supposed" that the action of the Mexican authorities in cancelling the shipment was due to the United States position.

The Ambassador said that he had considered the matter of a protest to the United Nations again and that he was in accord with Mr. Lovett and me that such a protest might have detrimental results. He was, accordingly, going to recommend to Fournier with whom he expected to speak shortly that any protest be postponed for the time being.

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I called Ambassador Gutiérrez again shortly before two o'clock to inform him of the contents of San José's telegram No. 144<sup>2</sup> which had just been received. I pointed out particularly that Figueres and the Government had agreed upon a cease-fire order to be effective as of 5:00 a. m. today, and that an arrangement had been made for emissaries of the Diplomatic Corps to meet Figueres.

The Ambassador was also informed that San José was quiet as of 10:00 p. m. last night. He expressed his pleasure at this news.

RN

*Note:* It was apparent that the Ambassador had not yet spoken with Fournier. The information conveyed to him may, therefore, strengthen his hand in suggesting postponement of the protest to the Security Council.

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<sup>1</sup> In Bogdel 105, April 14, 6 p. m. to the Director, Office of American Republic Affairs (Daniels) at the Bogotá Conference, Acting Secretary Lovett stated in part: "Embassy San José reported on Mar 29 and repeated to Embassy Mexico a rumor of shipment of arms fr Mexico to Picado Govt without permission Mexican Govt and this info was given informally by Amb Thurston on March 30 to Mexican Govt as routine cooperation without any indication of action Mexican Govt might wish to take."

<sup>2</sup> Not printed.

818.00/4-1248 : Telegram

*The Acting Secretary of State to the Embassy in Costa Rica*

CONFIDENTIAL

WASHINGTON, April 13, 1948—9 a. m.

US URGENT

86. While fully appreciating the desirability of any reasonable extension of good offices to avoid bloodshed, the Department believes that extension your individual good offices to bring about "acceptable political arrangement" as suggested would inevitably be subject to misinterpretation as intervention and that it should therefore be avoided. Department however approves your taking part in any group diplomatic corps action that seems to hold forth humanitarian possibility. (Embtel 138, April 11, 6 p. m. and Embtel 142, April 12, 1 p. m.)

LOVETT

818.00/4-1348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET US URGENT

SAN JOSÉ, April 13, 1948—10 a. m.

145. Leaving 8:15 a. m. with diplomatic colleagues meet Figueres crossing lines at El Alto, the Continental Divide between Tres Rios and Cartago. Despite cease-fire order effective 5 a. m. government actively recruiting and sending out reinforcements.

Remytel 144, April 12.<sup>1</sup>

Possible political details include resignation President Picado and three designates to presidency.

DAVIS

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<sup>1</sup> Not printed.

818.00/4-1348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 13, 1948—5 p. m.

US URGENT

149. Returned early afternoon from Figueres headquarters in Cartago. Negotiations carried on despite continued fighting from the *cuartel* and occasional sniping since government unable notify forces in Cartago re truce. Discussion with Figueres and his supporters lead to following proposals:

1. Picado and three actual designates to Presidency present resignation to Congress.

2. Congress to elect three designates consisting of Figueres, Alberto Marten, and Fernando Valverde to exercise Presidency until Congress



again meets on May 8, when new designate to Presidency will be elected.

3. Figueres to receive unconditional surrender of all the armed forces of the government.

4. New government to grant amnesty for all political offenses.

5. Respect lives and property of adversaries.

6. Respect diplomatic asylum.

7. Pay off troops and facilitate their reincorporation civil life.

8. Reestablish public order.

9. Guarantee lives and property President Picado.

Foregoing communicated to President upon return of diplomatic group as Figueres sole conditions. President replied agreeable to all conditions except election of three designates, point 2 above, stating revulsion would be so strong could not restrain government forces. Alternative was pointed out that if this proposition not accepted before 5 p. m. and communicated to Figueres, latter will continue his armed operations.

Meeting with other members group at Mexican Embassy then ascertain President's decision to be communicated Figueres by radio telephone 5 p. m.

Government taking all possible emergency measures defense of city, requisitioned or taken over buildings at strategic points with armed guards many street corners and sheltered in public and private buildings. If Figueres offer not accepted or carried out alternative appears only heavy fighting.

Repeated CA missions by mail.

DAVIS

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818.00/4-1448 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 14, 1948—5 a. m.

US URGENT

150. Again met with President shortly before 5 p. m. deadline set by Figueres remytel 149, April 13, Picado agreed *in toto* but said could not depend upon agreement armed forces if point 2 mytel insisted upon. Foreign Minister suggested proposed course would break constitutional order owing absence quorum in Congress through absence from city or country and offered alternative of President's present resignation and obtain resignation first two designates exercise presidency thus falling upon Santos Leon Herrera aged third designate who could be controlled by Figueres. Due nature open radio communications specific details counterproposal could not be brought directly attention Figueres. However, he agreed send emissary consult Picado. Therefore, together with Nuncio and Mexican Ambassador I will again

proceed Figueres lines 8 a. m. April 14 accompany his emissary San José for conference President. This message prepared midnight April 13 for despatch earliest possible.

I am inclined to be somewhat hopeful negotiations may be fruitful though military and political party interests may make proposed solution difficult.

DAVIS

818.00/4-1448 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 14, 1948—10 a. m.

US URGENT

151. Returned San José 8:15 a. m. bringing Father Nuñez<sup>1</sup> as emissary of Figueres mytel 150, April 14. Though safe conduct guaranteed no doubt government forces deliberately fired upon group besides self included Nuncio and Mexican Ambassador. Government forces advanced to locality commanding point where Figueres representative was to be met and opened fire. Turned car about protected by machine-gunning from Figueres forces. Took shelter under bridge while tire, punctured by natural causes, repaired, firing meanwhile continuing.

El Tejar liquidated by Figueres in substantial defeat of Government forces taking quantity arms supplies. Cuarteles Cartago still holding out has burned square block houses with fire bombs. According press army general staff has transferred army headquarters from (Vanguardia) building to a requisitioned apartment house thus evidencing where real control lies.

Commercial air service suspended for today at least. Government planes all apparently in Nicaragua having taken passengers fleeing country. Tavio left for Nicaragua at President's request as impossible protect his life.

Sent Department as No. 151, repeated CA missions.

DAVIS

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<sup>1</sup> Father Benjamin Nuñez, leader of the Catholic *Rerum Novarum* labor organization, serving as a major on active duty with the revolutionary forces and delegate of the Army of National Liberation in peace negotiations.

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818.00/4-1448 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 14, 1948—5 p. m.

153. Suggestion advanced by President and Foreign Minister re installation of third designate Santos Leon Herrera (mytel 150, April

14) to presidency has been agreed upon. I will accompany Mexican Ambassador and Nuncio to Figueres lines providing safe conduct his emissary. Orders are to be issued by couriers to all forces on that front cease fire for 48 hours. Government delegate will also accompany Figueres emissary place in hands third designate now behind Figueres lines personal letter President Picado informing him of decision requesting he assume presidency. Will cross lines at 5 p. m. If incident of this morning repeated, I will have to remain behind for at least the night.

President and Foreign Minister are calling Manuel Mora and Dr. Calderon Guardia to inform them of decision which has been reached. Understand Mora has given assurance that he is agreeable.

Sent Department as 153; repeated Central American Missions.

DAVIS

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818.00/4-1548 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 15, 1948—5 a. m.

US URGENT

154. Returned San José 7 p. m., having escorted Father Nuñez to Figueres lines. As promised escort lacking last minute, President Picado accompanied us as far as Government lines. Party consisted of Nuncio and me representing Diplomatic Corps, Nuñez and Esquivel, Minister Fomento,<sup>1</sup> latter to deliver President's letter to Herrera.

Contrary impression mytel 153, April 14, Nuñez did not make definite commitment acceptability by Figueres suggestion Herrera exercise presidency until May 8, however, we are to return 7 a. m. April 15 meet Nuñez and Herrera, accompany them city if proposal accepted. In that event decision will be communicated by Foreign Minister to Mora and Calderon with Diplomatic Corps present, thus notifying *fait accompli*. President tonight indicated Mora virtually accepted suggestion if Calderon not agreeable he can go to front and fight. (This message prepared midnight April 14 for transmission April 15). Further details political settlement to be worked out without participation Corps which withdraws in any event if present suggestions not fully accepted. Negotiations in which we did not participate included provision for turning over San José Cuarteles details understood arranged or in process. Essential element make transfer presidential power least possible advance warning.

Sent Department No. 154, repeated CA Mission.

DAVIS

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<sup>1</sup> Francisco Esquivel.



818.00/4-1548 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 15, 1948—11 a. m.

155. Returned city 8 a. m. April 15 bringing Father Nuñez, Esquivel and Herrera. No difficulties en route truce being observed except one column commanded by Fallas somewhere near Cartago. Figueres agreed alternative suggestion presidency and has given Nuñez full powers. Mytel 154, April 15. Prospect, therefore, brighter but diehards may attempt sabotage arrangements before they can be put into effect.

Govt plane dropped four bombs near Cartago yesterday after distribution handbill advising civil population leave. No damage done. Cartago cuartels still in govt hands but imminent surrender expected. Figueres defeat of govt force El Tejar overwhelming, considerable valuable arms taken.

Redesp 167 April 8.<sup>1</sup> Electoral tribunal in last minute chicanery officially declared 26 Calderon seats, 8 Vanguardia and 20 opposition for new May Congress. This despite statements govt officials freely acknowledging opposition and Calderon each 23 seats.

Limon taken by Figueres with force of about 70 transported by plane. No casualties, city surrendered without struggle. Twenty-five mile area around Limon held by Figueres. The three TACA planes commandeered by him now at other interior airport none lost San Isidro.

TACA international plane Salvadorian registry commandeered by government April 15 ostensibly to carry wounded. However, on second trip brought in 30 armed men. Latest news plane may be allowed proceed today. PanAm again not stopping San José.

Sent Department as No. 155; repeated Central American Missions.

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<sup>1</sup> Not printed.

DAVIS

818.00/4-1548 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 15, 1948—11 p. m.

158. Together with Nuncio accompanied Father Nuñez to Figueres lines 8:30 p. m., he will endeavor obtain agreement Figueres additional 24 hours truce expire 5 a. m. April 17. Also carrying suggestions Mora re Cabinet. He will return 9 a. m. April 16 and if efforts not fruitful Diplomatic Corps will terminate its efforts.

Meanwhile attempting through Embassy Managua verify reports re renewed Nicaraguan participation. City heavily guarded Mariachis<sup>1</sup> situation tense.

DAVIS

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<sup>1</sup> Irregular troops, composed of groups of Calderon-Vanguardia supporters who had been recruited and brought into the city from coastal regions, to augment the regular police forces of the Government.

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818.00/4-1648 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 16, 1948—8 p. m.

US URGENT

165. Further meeting with Nuñez and government has resulted in an agreement reached between Nuñez and Mora approved by Picado. Nuncio and I are accompanying Nuñez on return to Figueres lines crossing at 7:30 p. m. If good faith exists final agreement will be signed April 17 at 11 a. m. Details not yet available.

Regarding developments general hospital mytel 164 April 16<sup>1</sup> president and Mora have apparently settled matter and ordered return doctors and nurses. Guard is to be established on hospital prevent recurrence. City tense isolated skirmishes elsewhere of relative minor importance.

Sent Department repeated Central American Missions.

DAVIS

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<sup>1</sup> An attack by the "mariachis" upon the principal charitable hospital of San José on April 16 for the alleged reason that arms had been concealed there was reported in telegram 164, not printed. It later appeared that the sole purpose of the raid was to kidnap some five doctors to be held as hostages.

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818.00/4-1748 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, April 17, 1948—8 p. m.

169. Meeting Nuñez, Picado, Mora, etc., scheduled 10 a. m. April 17 postponed request Nuñez to be held 10 a. m. April 18.

Mexico, Chile, Panama, Nuncio and I met twice today discuss possible steps view threat Nicaraguan invasion.<sup>1</sup> All had some information from local sources. I also supplied certain details from Managua

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<sup>1</sup> Ambassador Davis reported in despatch 185, April 21, not printed: "We knew that the President, Dr. Calderon, and Manuel Mora had conferred on the previous day with representatives of General Somoza and we feared that a breakdown of the negotiations and the resumption of fighting with the Nicaraguan *Guardia Nacional* actively assisting the government was imminent." (818.00/4-2148)

Embassy telegrams. While meeting this p. m. Mora appeared due lack information regarding postponement negotiations. Taking opportunity our presence he said aware Nicaraguan threat, had told Picado and Calderon in such event would join arms with Figueres defend Costa Rica. Said Calderon tempted by Paco Calderon's suggestion of Somoza help but hesitant. Mora expressed belief if situation promptly resolved by agreement all elements except Calderon later [*latter*] will give in and not call upon Somoza. Therefore, Mora anxious reach agreement April 18 and will involve disarming party forces. Details have been agreed by Mora and Picado on method transfer Cuarteles to new government control and former satisfied majority officers, etc., will agree.

After Mora's departure we agreed send message, in my immediately following telegram, to Foreign Offices for consideration event negotiations fail and Somoza (?) [threat?] again acute.

DAVIS

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818.00/4-1748 : Telegram

*The Chargé in Nicaragua (Bernbaum) to the Secretary of State*

CONFIDENTIAL

MANAGUA, April 17, 1948—9 p. m.

96. Following telegram Nicaraguan Foreign Office to Nicaraguan Delegation Bogotá delivered tonight by Acting Minister Foreign Affairs:

[Translation]

"Advance from Costa Rica toward our borders of revolutionary columns made up of elements of various nationalities with the intention of invading Nicaragua having been verified, and in view of the inability of the Government of Costa Rica to protect the border, this Government, duly authorized by and at the request of the Government of Costa Rica, has occupied strategic places in Costa Rican territory for the sole purpose of preventing invasion, while maintaining its neutrality with regard to the state of war in Costa Rica. The Government has notified the American Embassy in this city of these events, repeating to it that the measures taken are for the sole purpose of preventing war in Nicaragua. Steps should be taken to explain the seriousness of the matter and to urge quick action to guarantee to this Government that the new Government of Costa Rica now being organized will prevent the revolutionary movement from proceeding against Nicaragua."

He stressed defensive character action and lack any intention intervene Costa Rican revolution. Promised furnish list occupied points tomorrow. Action already indicated by Somoza's recent statements to Embassy and follows today's controlled American sources reports troop movements into Costa Rica and Nicaragua air force activity.

BERNBAUM



818.00/4-1848 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

US URGENT

SAN JOSÉ, April 18, 1948—6 p. m.

171. President arrived accompanied by Esquivel Minister Fomento and Quesada [Minister of] Government and Foreign Minister 2 hours late for meeting called for 10 a. m. April 18 may possibly have been engaged another meeting with Somoza representatives. At one point discussions necessary bring up Somoza telegram to Bogotá re Managua's 96 April 17 President said old standing agreements for border transit treasury guard but even when pressed would give no definite answer whether Somoza was correct stating acted with authorization and request Tica Government.<sup>1</sup> Left to consult military leaders. Foreign Minister, speaking privately to me, said surprised I had not brought his attention Managua's telegram, said his department had no knowledge of arrangement had been made. . . . Dr. Calderon also present subsequently in closed conversation with Mora.

President returned gave us categorical denial Somoza claim and showed telegram to Bogotá and Managua latter ordering Tico Minister Managua request immediate withdrawal Nicaraguan forces. Agreement reached acquiesced in by Mora and Calderon, latter with obvious reluctance, to install Leon Herrera appoint new cabinet including Miguel Brenes, former Minister Labor, as Minister Public Security, Figueres Agriculture, Francisco Orlich Finance and a Mrs. Saenz possibly Luisa Gonzalez V de Saenz a known Communist, Education. Leaving 4 p. m. with Panamanian Ambassador to accompany Nuñez

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<sup>1</sup> The meeting included the diplomatic commission and representatives of interested Costa Rican parties: President Picado, Third Designate Santos Leon Herrera, Acting Minister of Foreign Affairs Bonilla Lara, Secretary of Gobernacion Maximo Quesada, Secretary of Fomento Francisco Esquivel, Dr. Calderon Guardia, Lic. Manuel Mora, Father Nuñez, and the five Chiefs of Mission, according to despatch 185, April 21 from Costa Rica, not printed, in which Ambassador Davis reported as follows: "I said that some four hours previously I had received a telegram from our Chargé in Managua which contained information of such a nature and of such gravity that we felt all parties interested in the negotiations for a settlement of Costa Rica's internal strife should know of it and that they should receive the information simultaneously. I then asked the Mexican Ambassador to read that portion of Mr. Bernbaum's telegram consisting of verbatim quotation of General Somoza's note. . . . After a pause during which all present maintained a dead silence, I stated that all present would appreciate that this information changed completely the complexion of the local problem. As representatives of the Diplomatic Corps we had been trying to find a basis for internal peace in Costa Rica; now, as representatives of members of the Pan American family we were confronted with the problem of maintaining the peace in America. All of the American Republics would take a most serious view of the invasion of one American country by another. Without even having time to consult our governments we could state with certainty that none of the American governments would permit such a breach of peace and that they would know how to punish those responsible for it." (818.00/4-2148)

to Cartago returning with Figueres answer tonight. Conditions re time of installing new government not yet known. Truce extended and to be broadcast.

DAVIS

818.00/4-1748

*Memorandum of Long Distance Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] April 19, 1948.

Mr. Bernbaum<sup>1</sup> was requested to inform General Somoza unofficially with respect to the Nicaraguan instructions to its delegation at Bogotá (Managua's telegram no. 96, April 17) that the Embassy wished

(1) to deny any possible implication that the Nicaraguan action in Costa Rica has United States support (the instructions stated that the Embassy had been informed of the Nicaraguan action),

(2) to emphasize that the United States Government does not agree with the necessity or appropriateness of the action despite alleged appeal of the Costa Rican Government,

(3) to state that this Government deplores this unilateral action as intervention inconsistent with well-established principles of the Inter-American System, and

(4) to state that this Government feels that it (the Nicaraguan action) holds the possibility of a much more serious conflagration.

Mr. Bernbaum was told that from Washington it appeared that by sending forces into Costa Rica, Nicaragua was inviting the very action to which it pretended to object and that the first thing that any new Costa Rican Government would feel bound to do would be to eliminate all Nicaraguan forces from Costa Rican territory. Accordingly, the action appeared particularly ill-advised and quite apart from other considerations not calculated to bring about the results desired by Somoza.

Mr. Bernbaum stated that he had received a telephone call from General Somoza shortly before our conversation and that Somoza reported that Nicaraguan troops had occupied three points in Costa Rica—Chiles, La Cruz, and Villa Quesada. One hundred men had been flown there to stop a revolutionary column consisting of some 500 men bound for Chontales. The column, which he claimed to be composed largely of Guatemalans and Venezuelans had been dispersed with 10 revolutionaries killed and an indeterminate number wounded, including a Guatemalan colonel who was leading the column. Mr. Bernbaum continued that according to General Somoza the Nicaraguan troops have strict instructions to confine their activities to stopping any at-

<sup>1</sup> Chargé in Nicaragua.

tempt on the part of the rebels to penetrate Nicaraguan territory, that similarly they have been strictly instructed not to advance beyond the points mentioned. Somoza was reported to have stated with reference to the Nicaraguan message to Bogotá that he wanted the other American countries to mediate the matter and to obtain guarantees for him that the Nicaraguan border would remain inviolate and not be attacked. He said that with such guarantees he would withdraw his troops immediately. Mr. Bernbaum said he was assured that there were no Nicaraguan troops in other parts of Costa Rica and that Somoza had engaged in no air activity other than the transport of troops to the places mentioned. Mr. Bernbaum said he had expressed satisfaction to Somoza that strict instructions had been given to the Nicaraguan forces not to proceed further. Upon inquiry, Mr. Bernbaum estimated that there were perhaps 200 Nicaraguan troops in Chiles and another 200 in La Cruz, with approximately 2,000 on the border.

R[OBERT] N[EWBEGIN]

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818.00/4-1948: Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, April 19, 1948—10 a. m.

173. Following is English text (re mytel 171, April 18) statement read by Picado to diplomatic group presence political leaders, etc., regarding Nicaraguan invasion:

"The President of the Republic categorically declares that he has never authorized the President of Nicaragua invade Costa Rican territory. That the sole request made Nicaraguan Government is guard frontier accordance established practices of reciprocity and in fulfillment its duties of international neutrality prevent entry into ranks of revolution of Nicaraguan elements.

In these moments Foreign Minister of Costa Rica is communicating with Costa Rican delegation Bogotá clarifying allegation of Nicaraguan Government; and requesting Minister Managua make appropriate representations to Nicaraguan Government to the end of ordering retire from Costa Rican territory any Nicaraguan force which may have invaded it."

As the President was visibly disconcerted when aware we had text Somoza's telegram I believe only that factor made him apparently reverse decision to accept Somoza's help.<sup>1</sup>

DAVIS

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<sup>1</sup> In despatch 205, April 20, from Managua, not printed, Chargé Bernbaum enclosed copies of alleged true copies of two documents signed at Punta Arenas on April 16, purporting to prove General Somoza's claim that he had been authorized by the Picado Government to send troops to Costa Rica.



S18.00/4-1948: Telegram

*The Chargé in Nicaragua (Bernbaum) to the Secretary of State*

CONFIDENTIAL

MANAGUA, April 19, 1948—3 p. m.

97. Embtel 96, April 17. General Somoza informed Embassy this a. m. that Nicaraguan troops in Costa Rica restricted to 100 each at La Cruz, Los Chiles and Villa Quesada with strict instructions confine activities checking revolutionary attempts enter Nicaragua and not take part Costa Rican conflict. He reported dispersal yesterday Villa Quesada revolutionary column 500 Guatemalans and Venezuelans bound for Chontales. Reiterated willingness withdraw troops upon international guarantees Nicaraguan border will not be violated.

Upon being informed later today's phone conversation with Newbegin<sup>1</sup> Somoza again insisted upon defensive character his action and lack any intention intervene Costa Rican conflict. He added at this point that situation clarifying and worsening with impending alliance Figueres and Vanguardia popular. To my urgent advice he retire to Nicaraguan border in deference strong international reaction, he stated could not afford permit revolutionaries utilize Villa Quesada airfield other occupied points as rallying centers for attack. War Sub-secretary Colonel Telleria later explained strategic importance these points as commanding only practicable means penetrating Nicaraguan border.

Embassy information indicates far more than 300 Guardia in Costa Rica. Indications are so-called volunteers in far greater number than uniformed troops. Although conceding Somoza action now dominated by considerations self-defense, Embassy foresees possibility progressively elastic interpretation self-defense which might eventually lead crusade rid Costa Rica of Communism. . . . Embassy advises any action taken be firm and unequivocal.

Department please pass Bogotá.

BERNBAUM

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<sup>1</sup> Ante, p. 519.

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S18.00/4-1948

*Memorandum of Long Distance Telephone Conversation, by the  
Deputy Director of the Office of American Republic Affairs  
(Woodward)*

CONFIDENTIAL

[WASHINGTON,] April 19, 1948.

Subject: Unusual Publicity in Bogotá Concerning Nicaraguan  
"Invasion" of Costa Rica.

Mr. Daniels<sup>1</sup> said that a full meeting of the Conference on the afternoon of April 19 had been startled and alarmed by headlines in a Bogotá newspaper that "the State Department stated Nicaraguan forces had invaded Costa Rica". General Marshall was asked at the meeting whether he knew of the basis for this report "from the State Department". General Marshall had not seen the telegrams received at Bogotá on this subject and said that he knew nothing about it.

Mr. Daniels said the Nicaraguan Delegate flatly denied the truth of this report and said he would telegraph immediately to his Government at Managua. Likewise, the Costa Rican Delegate was disturbed.

I commented to Mr. Daniels that there would not seem to be any doubt concerning the accuracy of the report. General Somoza had personally admitted to Mr. Bernbaum at Managua that he had sent troops to three towns well within the Costa Rican border. Also, the Nicaraguan Government had sent a message to the Nicaraguan Delegation at Bogotá explaining the reasons for this and therefore admitting that it was so.

I told Mr. Daniels that I agreed that it was unfortunate that the report concerning this military action was attributed to "the State Department" as a source. I said this manner of reporting information was a mistake and that I was very sorry that it had happened.

Mr. Daniels requested that I telephone promptly on the morning of April 20 any further information concerning this incident, such as possible withdrawal of the troops from Costa Rica.<sup>2</sup>

ROBERT F. WOODWARD

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<sup>1</sup> Director for American Republic Affairs, and member of the U.S. delegation at the Bogotá Conference.

<sup>2</sup> Chargé Bernbaum informed the Secretary of State in telegram 99, April 20, 1 p. m., not printed, as follows: "Today informed by General Somoza that orders issued for retirement Nicaraguan troops from Costa Rica. Expects return troops from La Cruz and Los Chiles today. Estimated those at Villa Quesada will require about two days for return to border by river and on foot. Stated expected attack and would await it at border."

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818.00/4-1948 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, April 19, 1948—4 p. m.

176. Further to mytel 175, April 19.<sup>1</sup> President Picado and Nuñez signed definitive agreement 3:20 p. m. including following:

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<sup>1</sup> Not printed.

- (1) Resignation of presidency, delegation of power to Leon Herrera, and nomination Brenes Public Security.
- (2) Secretary of Public Security take all pertinent means retirement of government-armed forces.
- (3) Government assist departure of certain persons, not signifying, however, their expatriation.
- (4) Figueres forces refrain taking any armed action while final details arranged.
- (5) Usual guarantees life and property.
- (6) Guarantees of social gains.
- (7) Take all judicial and diplomatic means in accordance with existing treaties in defense of national sovereignty, i.e. against Nicaraguan intervention.
- (8) Vote of thanks to diplomatic corps for its actions.

Agreement signed in three copies: one for diplomatic corps, one for government, and one for Figueres.

Sent Department 176; repeated Central American Missions and Bogotá.

DAVIS

818.00/4-2048: Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SECRET

SAN JOSÉ, April 20, 1948—11 a. m.

178. Resignation President Picado<sup>1</sup> with transfer presidential power to Santos Leon Herrera to be exercised until May 8 (reDeptel 102, April 19<sup>2</sup>) apparently accordance Article 109 Costa Rican constitution, and therefore presumable no question recognition now involved. However, most probable no constitutional means designating new president hold office after May 8. Recent congressional elections bill probably be invalidated even if last minute chicanery increasing Calderon seats to 26 now have taken place. Calling of Constituent Assembly will probably take several months and in interval of reforming constitution and final calling presidential elections will be necessary form some sort government exercise power. Recognition question, therefore, will undoubtedly arise on or shortly before May 8, leaving very little time for mutual consultations. Believe that when details available, necessary take prompt action extend recognition if justified thereby facilitating political and economic recovery.

Sent Department 178; repeated Bogotá.

DAVIS

<sup>1</sup> In telegram 181, April 21, noon, from San José, not printed, Ambassador Davis reported that ex-President Picado and large group departed via PAA for Managua early that morning (818.00/4-2148).

<sup>2</sup> Not printed.



S18.00/4-2448 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SAN JOSÉ, April 24, 1948—10 a. m.

189. Figueres and forces entered San José orderly fashion early morning hours today. Streets now patrolled traffic directed military police. Some firing evening April 23 apparently connection search for arms.

In statement published today Figueres states regrets certain steps taken by force of circumstances created impression intend install military dictatorship stating nothing more removed from temperament and inclinations leaders liberation movement. Added army has not terminated labor consolidating order necessary before taking political and civil measures.

Acting President issued declaration stating assumed power "to conserve until the last moment the principle of constitutional legality of our institutions maintaining them until their legal end". States his position to serve as bridge between the fallen regime "and the new regime which the triumphant revolution possessor of the force and the arms will install". Both statements avoid any categorical expression form of future government.

DAVIS

S18.00/4-348 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SAN JOSÉ, May 3, 1948—11 a. m.

199. Figueres and Ulate signed following agreement May 1 defining political situation:

1. Revolutionary Junta to govern without Congress eighteen months starting May 8 and if necessary may request six months extension from Constitutional Assembly;
2. Junta will call elections December 8 for Constitutional Assembly;
3. Junta immediately designated commission formulate project of constitution;
4. Junta recognizes and will immediately declare Ulate as legitimately elected President February 8 last;
5. Junta will request Constitutional Assembly ratify election Ulate to exercise power during first constitutional period of second republic;
6. Junta will integrate national electoral tribunal;
7. Both signatories to agreement formally obligate selves not under-

take any electoral activities for period of six months from date of signature.

Sent Department as No. 199, pouched CA missions.

DAVIS

710.J/5-148 : Telegram

*The Secretary of State to the Embassy in Costa Rica*

WASHINGTON, May 3, 1948—6 p. m.

117. Bogotá Conference signed Apr 30 resolution<sup>1</sup> summarized in following terms:

1. Continuity of diplomatic relations among American states is desirable.

2. Right of maintaining, suspending or resuming diplomatic relations with another Govt cannot be employed as instrument for individually obtaining unjustified advantages in conformity with international law.

3. Establishment or maintenance of diplomatic relations with Govt does not signify judgment concerning internal policy.

This resolution should obviate need for raising any question non-continuity diplomatic relationships at this time.<sup>2</sup>

<sup>1</sup> For Resolution XXXV, "Exercise of the right of legation", see *Ninth International Conference of American States, Bogotá, Colombia, March 30-May 2, 1948, Report of the Delegation of the United States of America with Related Documents*, Department of State publication 3263, p. 271.

<sup>2</sup> The Secretary of State instructed the Embassy in Costa Rica in telegram 119, May 5, 6 p. m., not printed, that in view of the Bogotá resolution the Department considered the question of recognition of Costa Rican regime after May 8 should not arise and the Embassy should continue relations with the Costa Rican Government (818.00/5-448).

MARSHALL

818.00/5-448

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

No. 212

SAN JOSÉ, May 4, 1948.

SIR: I have the honor to report that Chiefs of Diplomatic Missions accredited to Costa Rica, were called to the Costa Rican Foreign Office on the morning of April 30th, to witness a ceremony of vindication in favor of the Government of Guatemala and its diplomatic representative.

It will be remembered that shortly after the outbreak of the revolution the then Acting Foreign Secretary, Mr. Alvaro Bonilla, convoked

the Diplomatic Corps for the purpose of confronting it with evidence to the effect that Guatemala had supplied the revolution with arms . . . the new administration, possibly at the suggestion of Guatemala itself, felt morally duty-bound to vindicate Guatemala and its local diplomatic representative from these charges.

The ceremony was attended by all Chiefs of Mission, except for the Ambassador of the Dominican Republic, which country does not maintain diplomatic relations with Guatemala. It consisted, in brief, in the reading of a prepared statement by Sub-Secretary of Foreign Affairs, Gonzalo Facio. A translation of this statement is enclosed.<sup>1</sup> The ceremony terminated with a reply by the Guatemalan Minister.

Respectfully yours,

For the Ambassador,  
ALEX A. COHEN  
*American Vice Consul*

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<sup>1</sup> Not printed.

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818.00/5-848 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SAN JOSÉ, May 8, 1948—5 p. m.

206. In simple formal ceremony noon May 8 attended by diplomatic corps, Archbishop, President elect Ulate, and new Supreme Court, Santos Leon Herrera turned over power to founding Junta of second republic composed of José Figueres as President of Junta without portfolio and Commander-in-Chief Army, Benjamín Odio Foreign Minister, and Father Benjamín Nuñez Minister Labor. Other members Cabinet are: Francisco Valverde Gobernación; Gonzalo Facio Justice; Edgar Cardona Public Security; Uladislao Gámez Education; Alberto Martén Finance; Francisco Orlich Public Works; Raúl Blanco Health; and Bruce Masís Agriculture.

New Supreme Court and other Justices sworn in.

DAVIS

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818.24/5-1248

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, May 12, 1948.

No. 231

Subject: United States Arms for Costa Rica

SIR: I have the honor to refer to previous correspondence regarding the unpaid lend-lease account covering military supplies and equipment supplied to the government of Costa Rica.



During the days preceding the Figueres uprising and while there was much talk of a general strike by Ulate supporters, the fact that the Picado government was in possession of arms supplied by the United States government was the subject of much critical comment to me personally and to other members of the Embassy staff. The fact that the true situation was little understood by the critics did nothing to lessen the depth of their feeling that the United States government would be directly responsible for the bloodshed expected to result from a strike. Several prominent oppositionists expressed this point of view to me on more than one occasion. A deputation of ladies called at my office to appeal to me to recapture United States arms in the hands of the government. Several anonymous telephone calls to my residence told me that United States arms were about to be used against patriotic sons of Costa Rica.

Naturally, I avoided argument or discussion of the matter whenever possible. When it was necessary to say anything I contented myself with pointing out that arms of United States origin represented but a small proportion of those in the government arsenals; that they had been supplied several years ago for the purpose of national defense; that I had heard of no protests at that time; that as an inevitable result of a world war in which the United States was allied with many nations there was a good deal of military equipment of United States origin scattered around the world that could conceivably be used for purposes other than those for which it originally had been supplied; and, that in any event there was no feasible way to take back equipment to which title had passed. . . .

In informal conversation with some of Figueres' officers at Cartago during the peace negotiations, the jocular remark was made that the rebels already had captured from the government forces most of the famous United States arms in their possession. I replied in the same vein that that would facilitate collection of a little bill I had to present to them after they should have become the recognized successors to the Picado government.

Similar remarks, also in lighter vein, were exchanged with Mr. Figueres when he called on me after becoming the Secretary of Foreign Affairs. No formal approach has been made to the new government, it being my assumption that in due course the Department will address the Costa Rican Ambassador at Washington in the premises.

On May 11, 1948, Colonel Edwin Messinger, Chief of the United States Military Mission to Costa Rica, informed me that Mr. Figueres had mentioned to him his desire to acquire United States arms, and possibly other military equipment, for the new Costa Rican army now being planned, to comprise some six hundred officers and men. I told him that I did not know what the policy of the United States govern-

ment would be should the question be raised formally, but I felt sure that certain fundamental questions would have to be answered before any discussions could be profitable. I mentioned the outstanding account for previous deliveries; the necessity for adequate assurances that no arms supplied from United States sources be used in military adventures in other American countries; definite and satisfactory plans as to the nature and mission of the new army (i.e. whether it is to include municipal police, constabulary, and customs guards, or be a strictly military force integrated into hemispheric defense plans); and the priority requirements of our own government for its own defense planning. I suggested that he bear these points in mind in any further informal discussions he may have with Costa Rican officials and indicated that the Embassy was not prepared at this time to discuss arms questions.

In anticipation of an approach to me from the Foreign Office, I should appreciate any comments the Department may be inclined to make both on the general policy of military assistance and with specific reference to the case of Costa Rica.

Respectfully yours,

NATHANIEL P. DAVIS

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818.24/6-948

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] June 9, 1948.

Ambassador Esquivel<sup>1</sup> informed me this morning . . . he felt that lend-lease had not been a good thing for certain of the other Latin American countries, and that they had obtained arms and ammunition which they did not really need. He felt that this was particularly true in the case of Costa Rica. In this connection, he said that the new Costa Rican Government had discovered that the arms used against it in its recent successful revolution had been in part of lend-lease origin. Immediately upon coming into office the new Government was faced with a debt for lend-lease material which hardly seemed fair. In reply I told the Ambassador that I was not sufficiently familiar with the situation at the time to be able to judge the lend-lease act, but it was my opinion that the arms supplied to various Latin American countries had been supplied at the request of their governments and on the basis of what those governments considered necessary for their defense. I pointed out further that the arms had been furnished on most advantageous terms, and that, furthermore, although the money involved was important in the case of Costa Rica, it was nevertheless a very small amount.

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<sup>1</sup> Mario A. Esquivel, Costa Rican Ambassador in the United States.

The Ambassador was informed further that this matter had been discussed with Ambassador Gutiérrez shortly before the outbreak of hostilities in Costa Rica. It had been suggested, at that time, that possibly this Government could consider payment of the lend-lease debt in colones rather than in dollars if the Costa Rican Government felt that such an arrangement would facilitate payment. In any case, the Department would be glad to give sympathetic consideration were a request of this nature made. For his background information, the Ambassador was told that the colones could be used locally in connection with the FBO program. The Ambassador countered with a suggestion that maybe Costa Rica could supply wood and other building materials rather than make payment in colones. I told him that I did not believe this would be a practical arrangement, or that it could be given serious consideration by the Department. He then asked whether payment of the outstanding debt could be made in installments. On this, I told him that I was unable to give him definite information, but I thought it might be possible, and that the Department would be glad to take under advisement any suggestions which Costa Rica might care to make.

I believe that although the lend-lease debt is not viewed with much sympathy by the present Costa Rican Government the Ambassador did recognize it as a legitimate obligation which would have to be met, and that we may expect further suggestions from him in the not too distant future.

R[OBERT] N[EWBEGIN]

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818.00/6-2248

*Memorandum of Telephone Conversation, by the Deputy Director  
of the Office of American Republic Affairs (Woodward)*

[WASHINGTON,] June 22, 1948.

Dr. Lleras<sup>1</sup> said he had received an inquiry from an Ambassador to the Council of the Organization of American States concerning the action of other American republics concerning "recognition" of the Figueres Government of Costa Rica. It transpired in the conversation that the inquiring Ambassador was the Colombian Representative to the Council. Dr. Lleras asked Mr. Woodward what action the Government of the United States had taken with respect to diplomatic relations with the new Government of Costa Rica. Mr. Woodward informed Dr. Lleras that the Department had instructed the American Ambassador at San José that "in view of Resolution XXXVI [XXV?] of the Bogotá Conference, the question of recognition of the new Costa Rican Government should not arise". The

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<sup>1</sup> Alberto Lleras Camargo, Secretary General, Organization of American States.



American Ambassador had received a note from the Costa Rican Government concerning the composition of the new Government, and having received this telegraphic instruction from the Department of State, the Ambassador simply assured the Costa Rican Foreign Minister of his "desire to contribute in every way possible to the furtherance and strengthening of the cordial relations which so happily exist between Costa Rica and the United States".

Dr. Lleras inquired whether the Department of State had received information concerning the action or attitude of any of the other American republics. After obtaining information from CPA, Mr. Woodward informed Dr. Lleras that the reports received by the Department implied that none of the other American republics had raised any question at San José concerning continuance of their diplomatic relations when the change in Government occurred. The Figueres Government had held a reception to which it invited the entire Diplomatic Corps. All members of the Diplomatic Corps attended; Colonel Figueres thanked the Corps for its attendance; he announced in particular that the new Government had been officially informed by the Chinese, Spanish and Guatemalan Governments that they were continuing their diplomatic relations with Costa Rica. Moreover, the Argentine Government had recently raised the status of its Legation to the rank of Embassy and a further indication to the continuation of Costa Rican relations with nearby countries was given by a visit to San Salvador by the new Costa Rican Foreign Minister. The only apparent exception to the continuation of diplomatic relations was the official notification sent by the Costa Rican Government to the Government of the Dominican Republic stating that Costa Rica does not wish to continue relations with the Dominican Republic.

Dr. Lleras was appreciative of this information and said that it would amply fulfill the desired needs.

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821.00/6-2948

*Memorandum of Conversation, by the Chief of the Division of Central America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] June 29, 1948.

Ambassador Sevilla Sacasa called this afternoon . . .

The Ambassador then launched into an attack on revolutionary activities in Costa Rica which might result in an invasion of Nicaragua. At this point, I told him it was my understanding that Costa Rica had recently made several gestures in order to improve relations be-

tween that country and Nicaragua, and it was my hope that the Nicaraguans would feel themselves in a position to reciprocate. I explained that the general Central American situation was a cause of great concern to us and that I was not endeavoring to assess the blame on any specific country. It was nevertheless apparent that rumors of attack from one country and another were increasingly frequent, and that there had been a general degeneration in the over-all relations of the various Central American countries with each other. In this connection, the Ambassador was informed that we had reports of several reconnaissance flights by Nicaraguan planes over Costa Rican territory. I added that the Nicaraguans should understand that the Costa Rican Government might legitimately question Nicaraguan actions in this regard; that it should be borne in mind that Nicaragua had, after all, sent one thousand troops into Costa Rica to subdue the forces of the present Costa Rican Government when it was combating the Picado-Calderon Guardia forces. It was accordingly an encouraging sign when the Costa Rican Government was willing to make some gesture to establish better relations with Nicaragua.

The Ambassador went on to describe in some detail the obligations which the Figueres Government might have to Guatemala, and to condemn Guatemala and President Arévalo in strong terms. He emphasized that Nicaragua would most certainly defend herself against any attack. I agreed with him that there was no question as to the right of any country to resort to necessary measures for self defense. At the same time, I pointed out that it was thoroughly undesirable that action taken by one country outside its own frontiers should be disguised as defense measures. I explained that action of that type destroyed completely the moral position of a country which might otherwise be entitled to general sympathy in the event of an attack by its neighbors. Ambassador Sevilla Sacasa said that he was in complete agreement on this count, and that he had recommended to his Government the greatest caution and patience. I told him that I had spoken along similar lines to one or two of the other Central American representatives here. (In the course of an intimate luncheon given by Ambassador Esquivel today, I had the opportunity to praise the well-known policy of Costa Rica in not intervening in its neighbors' affairs and in strictly minding its own business. I expressed the hope that Costa Rica would maintain its traditional policy in this regard. Ambassador Esquivel indicated that this was Costa Rica's desire and that it had already made an approach to the Nicaraguans with the view to improving relations. He had personally spoken to Ambassador Sevilla Sacasa to see what might be done by way of improving relations).

The conversation with Sevilla Sacasa was cordial throughout and he expressed his sincere appreciation of the Department's views.

R[OBERT] N[EWBEGIN]

818.24/7-2048

*Memorandum of Conversation, by Mr. William Tapley Bennett, Jr., of  
the Division of Central America and Panama Affairs*

CONFIDENTIAL

[WASHINGTON,] July 20, 1948—3:30 p. m.

I called on Ambassador Esquivel this afternoon to discuss with him the status of several requests submitted for arms for shipment to Costa Rica and to pass along information regarding certain aircraft now in California reportedly destined for Costa Rica.

I discussed quite frankly and thoroughly with the Ambassador the situation with respect to the list recently presented by the Embassy of arms being requested on advice of the U.S. military mission in San José for exchange with antiquated weapons now in possession of the Costa Rican army. The Ambassador was advised that the list as submitted by him has been sent by the Department to the Army Department for an expression of its opinion and for investigation as to whether the items requested are now available. It was explained to the Ambassador that the Department is not opposing the request and, in fact, views it sympathetically but that the difficulties lie in the lack of arms at the present time, the lack of legal authority to declare further amounts surplus due to recent congressional action and the difficulties expected to be caused for the export of arms through our own rearmament program. Ambassador Esquivel expressed regret over the fact that the possibility of obtaining arms seemed to be being cut off just as his Government needed them, whereas neighboring countries had already been supplied, but he appeared finally to realize that the probable failure of the Costa Rican request would be due to causes beyond the control of the Department rather than to a lack of sympathy with the Figueres Government.

The Ambassador expressed himself most emphatically as being sick of the whole armaments mess and very discouraged over what he regards as the necessity of his Government to arm the country to a level beyond that formerly held essential to the national safety. He said that he did not like having arms brought into Costa Rica and especially did not like the financial burden they imposed but that there seemed no alternative at present in view of what he described as obvious preparations on the part of General Somoza for aggressive action. He expressed complete pessimism over the chances for peace in the Caribbean area during the next few months and spoke at length in condemnation of the joint activities of Somoza and Trujillo, mentioning various incidents and reports which had come to his attention concerning the shipment of arms and warplanes from the Dominican Republic to Nicaragua. He also charged Honduras as being ready to assist Nicaragua in aggressive action. He asserted that Somoza and Trujillo are both emboldened by the United States non-intervention



policy and feel that they can carry on their schemes without interference and that the danger of non-recognition of their regimes is removed as a result of Bogotá. I spoke of the mutual distrust so prevalent in the area at the present time, and there was agreement on the desirability of a spirit of confidence in the relations of the various countries in the Caribbean region as the only real solution to present unrest.

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818.24/8-1048

*Memorandum of Conversation, by Mr. William Tapley Bennett, Jr.,  
of the Division of Central America and Panama Affairs*

[Extracts]

CONFIDENTIAL

[WASHINGTON,] August 10, 1948.

Ambassador Esquivel and Señor Oduber came in to discuss further the interest of the Costa Rica Government in obtaining certain arms and to report conversations with officials of the Department of the Army yesterday. Both seemed to understand clearly the reasons behind the recent rejection by the Arms Policy Committee of the list presented by the Costa Rican Embassy on recommendation of the United States Military Mission at San José. Ambassador Esquivel expressed himself as being pleased with the arrangements being made by the Army Department to assist the Costa Rican Government in purchasing equipment through commercial channels in the United States.

. . . . .

The Ambassador reverted to his preoccupation over the situation in Nicaragua and reiterated his earlier expressions of concern over the maneuvers and training exercises of Nicaraguan forces in Corinto and along the Costa Rican border. He alleged, as on previous occasions, that a substantial number of Costa Rican exiles is being given military training by Somoza near the Costa Rican border and that there are frequent incursions over the border into Costa Rica. He also mentioned again the occasional flights made by Nicaraguan war planes over Costa Rican territory and stressed his fear, which I believe is an honest one on his part, that General Somoza has a definite intention to invade Costa Rica and to cause trouble in Guanacaste Province even though he may not have sufficient military strength to penetrate to San José through a hostile population.

He said that his Government had made a mistake in going ahead and expelling Nicaraguan exiles from Costa Rican territory as a conciliatory move toward Somoza. . . . The Ambassador said that his Gov-

ernment feels that the United States Government should take a stronger line with Somoza to prevent his going forward with aggressive plans. He stated that his Government believes it has the right to request such action on the part of the United States.

In reply, I told the Ambassador that this Government has received numerous assurances from General Somoza and from the Nicaraguan Government relative to its peaceful intentions and that this Government has lost no opportunity, and will lose none in the future, to urge on all governments in the area the urgent desirability of general compliance with international obligations concerning non-intervention in the internal affairs of other countries. It was further suggested that many of the stories circulating all through the Caribbean area at this time and involving various countries are often based on rumor rather than fact and that rumor grows by repetition. The Ambassador was assured that this Government is taking all legitimate steps within its power to encourage peace in Central America and that our endeavor is limited only by our desire not to interfere in the internal affairs of sovereign sister states. The Ambassador was further assured that there will of course be no let-up in the efforts of this Government in that regard.

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817.00/8-1248 : Telegram

*The Chargé in Nicaragua (Rose) to the Secretary of State*

SECRET

WASHINGTON, August 12, 1948—4 p. m.

194. Embtel 192, August 10.<sup>1</sup> Minister Foreign Office informed Embassy that Somoza again upset by report received from Costa Rica and Guatemala that Nicaragua revolutionaries continuing plans for invasion Nicaragua with full support Arévalo and Figueres. Somoza also states Arnulfo Arias<sup>2</sup> landed at military airport Guatemala where met by Guatemalan army officer. Somoza fears supported by observations of third secret plane just returned from San José where Nicaraguan exiles told him their plans rapidly progressing with Arévalo likely to contribute military support. Figueres reported reluctant to permit launching revolutionary attempt from Costa Rica but determined support Nicaraguan revolutionaries on best possible basis as soon as plans formulated.

Minister Foreign Office and Embassy believe it likely Somoza may invade Costa Rica alleging self-defense unless foregoing reports disproved by convincing evidence of intentions of Figueres and Arévalo not to permit revolutionary plotting against Nicaraguan Government

<sup>1</sup> Not printed.

<sup>2</sup> Former President of Panama, rumored to have been instrumental in forming a group in southern Mexico for purpose of planning the overthrow of governments of Panama and other countries.

within their respective territories. Somoza informed Dept's views as stated in Deptel 111 of August 9<sup>3</sup> and has again agreed to make no move unless forced to do so. Would appreciate receipt from Dept of any assurances which could be transmitted Minister Foreign Office and Somoza.

ROSE

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<sup>3</sup> Not printed.

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818.24/10-1848 : Airgram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL

SAN JOSÉ, October 18, 1948.

A-355. ReDept's inst. no. 110, Oct. 7,<sup>1</sup> Costa Rican lend-lease debt. During farewell visit on eve his return to Washington, Ambassador Esquivel raised question possibility cancellation. On basis previous instructions (inst. under reference had not been received) I discouraged idea any attempt renegotiate but in reply to his specific question expressed belief US would consider favorably concrete proposal to pay in colones. Esquivel evidently has instructions endeavor cancel or at least reduce amount obligation but indicated might propose full settlement in colones in several installments.

DAVIS

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<sup>1</sup> Instruction 110, October 7, not printed, reported the aggregate figure of \$155,595.32 as the final amount of all defense aid transferred to Costa Rica and that the final amount payable was \$84,877.25; in spite of repeated requests for settlement, made both in writing and orally, no payment whatsoever had been made on this account (818.24/10-748).

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810.00/11-2948 : Airgram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

SAN JOSÉ, November 29, 1948.

A-416. On Nov 27 the local press announced that the Caribbean Legion<sup>1</sup> had formally disbanded.<sup>2</sup> President Figueres, in a statement to the press, said:

"A few moments ago General Miguel Angel Ramírez, Chief of the Caribbean Legion, and various other officers forming the general staff

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<sup>1</sup> A group of political exiles and military men from countries in the Caribbean area, with the alleged aim to overthrow certain dictatorial governments in the area.

<sup>2</sup> A memorandum by the Acting Chief of the Division of Central America and Panama Affairs (Bennett), November 30, 1948, stated in part:

"In discussing the need for confidence as a factor in the improvement of Costa Rica's economic situation, Ambassador Davis, in a conversation with President Figueres on November 25, suggested that one means of restoring confidence would be taking action to convince the world that Costa Rica has no war-like intentions. The President admitted that so long as the Caribbean Legion is in Costa Rica appearances are against his Government." (810.00/11-3048)



of that military group came to visit me. They came with the object of informing me of the approaching demobilization of the Caribbean Legion which, as our people should well remember, played a very important role in the triumph of the revolution and which is made up of valiant citizens who risked their lives on Costa Rican battle fields. If at that time they were our friends and many of them intervened with courage and valor in the effort towards liberation, their present gesture is no less magnificent since by their action they are endeavoring to obliterate the disquiet which the composition of this group had given rise to in the various countries. I understand that the greater part of those who compose the Legion, if not all, will leave our territory in the near future. We must thank General Ramírez with regard to all we owe them and send through him an affectionate salute to the components of this military group which will be demobilized in a few days."

Just what will happen to the members of the Caribbean Legion remains problematical. Their public disbandment may only be a concession to opposition which has always been present with regard to their activities and the possible interference of Costa Rica in the affairs of its neighbors.

One local newspaper remarked that the members of the Legion would scatter to the various countries from which they came and again take up their every day work. When it was pointed out to Mr. Figueres that General Ramírez would perhaps have a certain reluctance to returning to the US where he is under indictment, Mr. Figueres said he had been unaware of that factor and asked what the reason for his difficulties might be. When it was explained that it involved a violation of the arms export regulations, Mr. Figueres laughingly remarked that such activities were entirely honest.

DAVIS

818.00/12-1148 : Telegram

*The Ambassador in Costa Rica (Davis) to the Secretary of State*

CONFIDENTIAL  
US URGENT

SAN JOSÉ, December 11, 1948—5 p. m.

396. President sent for me 3 p. m. With Ulate and Foreign Minister present asked if US would permit Costa Rica purchase arms in event invasion not speedily repulsed.<sup>1</sup> I replied my understanding US had not refused his government export license for arms procurable private sources, although for some time US Government itself unable sell. On his repeated request, seconded by Ulate, I promised inquire possibility obtain 2000 rifles, 100 light machine guns using same am-

<sup>1</sup> The northwest frontier of Costa Rica was reported to have been invaded on December 10, allegedly by armed forces from Nicaragua.

munition, 100 medium mcheten [*machine?*] AA guns and armament for P-38. Please wire reply.<sup>2</sup>

Replying my direct question said Caribbean Legion offered support as unit with 600 men. This proposal rejected but stated individual volunteers acceptable, and he is demanding delivery all Legion arms which would be taken forcibly if not given up by tonight. Emphasized while Legion has arms in Costa Rica for that number, actual membership far less.

Said no reports any support within Costa Rica of invasion, on contrary offers pouring in aid government. Endeavoring detain Vanguardia leaders but all except one in hiding.

Has instructed Marten<sup>3</sup> invoke Rio treaty.<sup>4</sup> While his information sketchy, understands 800 men in attack La Cruz. Says only about 200 can possibly be Ticas.

DAVIS

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<sup>2</sup> Acting Secretary Lovett replied in telegram 267, December 12, not printed, as follows: "As Costa Rican Govt already informed US Govt has no surplus arms available for sale but no objection granting export licenses for approved purchases Costa Rican Govt. Reurtel 396, Dec. 11."

<sup>3</sup> Alberto Marten, Minister of Economy and Finance, who was in Washington on government business at that time.

<sup>4</sup> The Inter-American treaty of reciprocal assistance, signed at Rio de Janeiro, September 2, 1947, effective December 3, 1948 (Department of State Treaties and other International Acts Series 1838, or 62 Stat. (2) 1681).

For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 1 ff.

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818.00/12-1248

*Memorandum of Telephone Conversation, by Mr. William Tapley Bennett, Jr., of the Division of Central America and Panama Affairs*

CONFIDENTIAL

[WASHINGTON,] December 12, 1948—noon.

On instruction of Mr. Daniels I telephoned Ambassador Nathaniel Davis at San José to inform him that the Council of American States was scheduled to meet at three o'clock this afternoon, at the request of Costa Rican representative, to consider the problem caused by fighting in northwestern Costa Rica involving Costa Rican Government forces and a group alleged to have entered Costa Rica by way of Nicaragua.<sup>1</sup> I also informed Ambassador Davis of the Depart-

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<sup>1</sup> Ambassador Mario A. Esquivel, Costa Rican Representative on the Council of the Organization of American States (COAS) sent a note on December 11 to the Chairman of the Council (Corominas) alleging that his country had been invaded on the previous night by an armed revolutionary group from Nicaragua, and requesting the Council, as the Provisional Organization of Consultation, to deal with the situation, in accordance with the Rio Treaty. For texts of the Costa Rican note of December 11, the Nicaraguan note of December 12, and other documentation on the situation, see Organization of American States, Council, *Documentos relativos a La Situación Entre Costa Rica y Nicaragua, del 11 de diciembre de 1948 al 28 de enero de 1949* (Washington, 1949). The United Nations Security Council was informed of the situation on December 12, 1948.

ment's present thinking that the problem appears to come under Article VI of the Rio Treaty rather than under Article III.

Ambassador Davis told me that the Costa Rican Government had already heard from Ambassador Esquivel concerning the meeting scheduled for this afternoon. He said that he had discussed the matter with Costa Rican Foreign Minister and that the Costa Rican Government also considers Article VI of the Rio Treaty to be applicable in the present situation. The Ambassador indicated that this is also his view.

In response to an inquiry as to the present situation in Costa Rica, Ambassador Davis stressed the fact that San José presents a normal Sunday appearance, with people on the streets in their usual numbers and that a general atmosphere of normality prevails. The Ambassador confirmed that communication censorship has been imposed but said that our official facilities are not affected. The football game scheduled for this afternoon has been cancelled and Santa Claus will not arrive as planned.

The Ambassador stated that very few facts on the progress of the fighting are available in San José. He emphasized the extreme isolation of the area of Guanacaste province involved in the fighting from Central Costa Rica, pointing out that there is no road connecting Liberia with La Cruz and that a ten-hour slog along muddy paths is required. The normal means of communication by air is, of course, not now available due to seizure of the La Cruz airport by the Calderon forces.

The Ambassador had no definite figures as to the numbers involved but stated that the total reported in action is considerably larger than the number of Costa Rican citizens known to have been in exile in Nicaragua. He commented that the boats reported to have landed forces at Puerto Soley could have come only from the north, as any vessels proceeding from the south would have had to go along the Costa Rican coast and thus would have been observed. He also expressed the opinion that the troops could only have come from the direction of Nicaragua.

The Ambassador reported that morale is excellent in San José and that messages of support are pouring in to the Government from all over the country. He said that he had come from a meeting with the Foreign Minister only twenty minutes ago and that the latter had informed him that up to now the Government has received no reports on any support for Calderon Guardia anywhere in the country.

The Ambassador remarked that the Army barracks converted into a museum just ten days ago is no longer a museum. He estimated that



some 600 men, principally members of the Caribbean Legion, are assembling there.

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818.00/12-1248 : Telegram

*The Ambassador in Nicaragua (Shaw) to the Secretary of State*

PRIORITY

MANAGUA, December 12, 1948—9 p. m.

333. Embtel 328, December 11 <sup>1</sup> and Gordon Reid's telephone call December 12.

I discussed Costa Rican situation with Somoza this afternoon. He first attempted treat matter lightly saying did not consider situation Costa Rica very serious.

I informed him of my opinion matter was very serious and pointed out that despite his promise to me had allowed an insurrection to organize in Nicaragua and proceeded to attack Costa Rica. I stated I knew a number of trucks loaded with men had proceeded to cross the border without being stopped by Guardia. He stated the border had been open and that while he had not given orders to not let groups of persons to pass he had not given orders to stop until this incident had occurred. He at first denied the Costa Rican émigrés had received uniforms, shoes, and arms. I told him I knew that there was an ample body of Guardia at the border which could have prevented these people including Calderon Guardia from going to Costa Rica. He stated Guardia Nacional had permitted this group to pass without his (Tacho's) knowledge or consent. I stated that he could not expect me to believe that he had lost control of the Guardia to that extent. . .

Tacho expressed no regret that incident had occurred and stated also that if this brought about an armed attack on Nicaragua that he would welcome it indicating that felt able to cope with this situation by force of arms. His final attitude was rather belligerent and his final statement was that this situation would be brought to a head and that the US would bring pressure on Costa Rica as well as on him to the end that peace and quiet might prevail in the two countries.

Hope to send supporting evidence of statements in Embtel 328 later tonight or tomorrow.

Department pass to Army.

Sent Department 333, repeated San Salvador, Tegucigalpa, Guatemala, pouched San José.

SHAW

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<sup>1</sup> Not printed.

818.00/12-1348 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*

WASHINGTON, December 13, 1948.

Council of OAS convened Dec 12 to consider Costa Rican problem. All OARS present except Ecuador and Cuba. Council heard summary by CR delegation its complaint as follows:

1. Armed invasion CR territory from Nicaraguan territory by group of mixed nationals;
2. Failure Nicaragua take proper action prevent this revolutionary movement from its territory;
3. No charge of aggression against Nicaragua. Nic Del explained Nic position as follows:

1. Nic had no aggressive intentions against CR or any other nation;
2. Nic had abided and would abide by 1928 Habana Convention regarding revolutionary movements within its borders against other countries;
3. There is no conflict between Govts Nic and CR.

Results of meeting:

1. Approved following resolution: "1. To study urgently, on the basis of adequate information, the problem presented by the Republic of CR, in its note dated Dec 11, 1948, in order to decide whether to proceed to convoke a Meeting of Consultation. 2. To recommend to its Chairman that he request full information from sources that he considers suitable. 3. To convoke the Council of the Organization for an extraordinary session on Tuesday Dec 14, at 3 in the afternoon."

2. Chairman of Council was to send telegram to Presidents of CR and Nic expressing profound preoccupation and decision to take measures tending to maintain international peace and security.

There was considerable debate whether Council was already acting as provisional organ of consultation under Rio Treaty or whether that should be specifically approved by Council after consulting Govts. Resolution does not specifically cover this point legally, but combined with telegrams seems to cover all that could be done at this stage.

The Dels both countries expressed themselves favor of closing frontier to prevent aggravation disturbances. CR proposed commission be appointed to investigate and study conditions on the spot, but this was not agreed this meeting. CR also favored international force to control disorder but no action was taken.

Resolution provides that Council is considering whether consultative meeting of Foreign Ministers should be convoked. General sentiment seemed against taking such action at this time nor does Dept see need for it now if Council can work actively.

LOVETT

818.00/12-1448 : Circular telegram

*The Acting Secretary of State to Diplomatic Representatives in the American Republics*

WASHINGTON, December 14, 1948.

Council Organization American States approved tonight following resolution :

"(1) To convcke a consultative meeting of FonMins to study situation created between Costa Rica and Nicaragua. Place and date of this meeting will be indicated opportunely.

"(2) To constitute itself as provisional organ of consultation in accordance with Article 12 of Inter-Amer Treaty of Reciprocal Assistance.

"(3) To name a commission to investigate on the spot the acts which have been denounced and their antecedents. This commission will be named by Chairman of the Council.

"(4) To request all the Amer Govts and the Secretary General of the OAS to lend their full cooperation to facilitate the work of the commission, which should begin its task immediately."

Of the thirteen countries voting on this resolution, twelve voted in favor, including U.S., with one abstention.

U.S. Delegate made it clear that this resolution should not and could not be interpreted as implying any judgment in regard to situation or as prejudging the case of any country. The Council in general shared this understanding.

Pls telegraph official and public reactions foregoing action taken by COAS.

LOVETT

818.00/12-1648 : Telegram

*The Acting Secretary of State to the Embassy in Costa Rica*

WASHINGTON, December 16, 1948.

276. Committee established Dec 14 by COAS leaving Washington 10 p. m. Dec 16 USAF C-47 scheduled reach San José 6:30 p. m. Dec 17, stopping Jamaica about 11 a. m. Members of Committee are Ambassadors to COAS Bello (Brazil), Villegas (Colombia), Quintanilla (Mexico), Lavalle (Perú),<sup>1</sup> Daniels (USA) accompanied by six advisers and PAU secretariat of four, totalling 15. Daniels accompanied by Bennett and Colonel T. A. Sapia-Bosch, technical ad-

<sup>1</sup> Juan Bautista de Lavalle, Peruvian Ambassador, withdrew from the group shortly before its departure from Washington, on instructions from his government, which declined to participate in the mission on grounds that the Costa Rican Government had not recognized the new Peruvian regime.



visers. Unless C.R. Govt lodges all at same place, arrange accommodations Daniels, Bennett and Sapia-Bosch.

LOVETT

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*Editorial Note*

For a summary account of activities of the Committee of Information in Costa Rica, December 17–20, and Nicaragua, December 20–22; a meeting of the Committee with the Council Chairman and Pan American Union officials on December 23 in Washington; a meeting of the COAS on December 24 together with the report (translation) of the Committee of Information, and the resolution (translation) adopted on December 24 by the Provisional Organ of Consultation after discussing the Committee's conclusions; information on the appointment of a Committee of Military Experts, directed by the Provisional Organ to proceed to Costa Rica and Nicaragua for the purpose of "contributing to the effective fulfillment of the resolution adopted on this date", and their final report of January 31; and information on termination of the incident and signature of the Pact of Amity, by Costa Rican and Nicaraguan representatives on February 21, 1949, see an article by W. Tapley Bennett, Jr., Adviser to the US Member of the Committee of Information (Daniels), entitled "The Costa Rica–Nicaragua Incident: Effective International Action in Keeping the Peace", in Department of State *Bulletin*, June 5, 1949, pages 707 ff. For another review of the Costa Rica–Nicaragua incident, see an article by the Director, Office of American Republic Affairs (Daniels), Ambassador to the OAS, entitled "Influence of Inter-American Relations on U.S. Foreign Policy", in the *Bulletin*, April 10, 1949, page 461. For additional information and documents on this subject, see *Annals of the Organization of American States* (Washington, PAU, 1949 and 1950) volume I, 1949, pages 143–144, and 204–206, and volume II, 1950, pages 21–22.

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CONSULAR CONVENTION BETWEEN THE UNITED STATES AND  
COSTA RICA

[For text of consular convention, signed at San José January 12, 1948, effective March 19, 1950, see Department of State Treaties and Other International Acts Series No. 2045, or 1 UST 247, or 70 UNTS 27. For press release of January 13 on the signing of the convention, see Department of State *Bulletin*, March 7, 1948, page 314.]

## CUBA

### EFFORTS TO SETTLE OUTSTANDING PROBLEMS BETWEEN THE UNITED STATES AND CUBA <sup>1</sup>

711.372/1-1548

*The Ambassador in Cuba (Norweb) to the Secretary of State*

No. 35.

HABANA, January 15, 1948.

SIR: I have the honor to enclose an account <sup>2</sup> of a routine New Year's conversation with President Grau,<sup>3</sup> reviewing some of our more important outstanding questions. The principal result of our talk was to revive discussion on the proposed Treaty of Friendship, Commerce and Navigation and the unpaid private debts, together with an indication of acquiescence to the suggestion that Ambassador Belt <sup>4</sup> take these matters up with Mr. Armour.<sup>5</sup>

For the convenience of the Department, the substance of the President's remarks are given as follows:

He began with assurances of Cuban solidarity with the United States in the event of a world crisis, and stressed the need for a greater public realization in Cuba of the gravity of the world situation, which would be reflected in a more serious electoral campaign.<sup>6</sup> He said he believed the Auténtico (his own) party would win, and added "I do not know personally who my successor will be." He spoke with gratification of Cuba's financial stability. The President then expressed a desire to make progress in some of the long-standing problems, particularly in view of his expiring tenure of office. He blamed the delay in settling American claims on the legislative bogging down of the *Tribunal de Cuentas* project; but said he would convey to Ambassador Belt my opinion that a Mixed Claims Commission could be set up. He spoke with a curious vagueness about why the proposed Treaty of Friendship, Commerce and Navigation had not been discussed with him when Ambassador Belt was last here, but made it plain that certain portions of the draft Treaty would be unacceptable to the Cubans. He agreed that it was time to lay all cards on the table. To my

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 604-628.

<sup>2</sup> Not printed.

<sup>3</sup> Ramón Grau San Martín, Cuban President, 1944-1948.

<sup>4</sup> Guillermo Belt, Cuban Ambassador in the United States.

<sup>5</sup> Norman Armour, Assistant Secretary of State for Political Affairs.

<sup>6</sup> June 1 presidential election.

representations in the Portland Cement Company<sup>7</sup> and Stowers<sup>8</sup> cases, his reaction was apparently favorable, as it was also in regard to the project for a Maine Park and a new site for an Embassy Chancery. At the end of our conversation he reverted to what is evidently uppermost in his mind: the American elections and their effect on the Cuban. He attempted to get some indication from me of the public temper in the United States and presented his own views on the pros and cons of an administration headed by military elements.

Respectfully yours,

R. HENRY NORWEB

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<sup>7</sup> One of several companies (including Coca Cola Bottling Company, Pepsi Cola Company, and Habana Electric Railway Company) that had been subjected to intervention by the Cuban Government.

<sup>8</sup> In despatch 255 of March 25, not printed, Ambassador Norweb reported that John L. Stowers had informed the Embassy that he had received 34,690.88 Cuban pesos, the proceeds of a Government check in payment of his long-standing claim for property expropriated by the Cuban Government; the Embassy did not feel that Stowers' chances of obtaining a supplementary payment were good or that he would request the Embassy to intervene in the further prosecution of his claim (837.52/3-2548).

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837.61351/1-3048

*Memorandum of Conversation, by Mr. Leonard H. Price of the  
Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] January 30, 1948.

Participants<sup>1</sup>: ARA—Mr. Woodward  
ARA—Mr. Daniels  
CRB—Mr. Walker  
CRB—Mr. Price

A tie-in between sugar purchase negotiations by representatives of the United States Department of Agriculture now in Cuba and the settlement of outstanding problems between the United States and Cuba (see Department's confidential telegram no. 126 of January 28 to American Embassy, Habana, Cuba<sup>2</sup>) appears unadvisable for the reasons set forth below. It should be emphasized that these are initial thoughts only which occurred to officers of the Department upon the receipt of the Embassy's telegram no. 107 of January 27.<sup>3</sup> Certain of these thoughts may prove to be inapplicable as a result of further

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<sup>1</sup> Robert F. Woodward, Deputy Director, Office of American Republic Affairs; Paul C. Daniels, Director, Office of American Republic Affairs; and William W. Walker, Assistant Chief, Division of Caribbean Affairs.

<sup>2</sup> Not printed; it indicated that the Department shared the concern of the Ambassador in Cuba (Norweb) over the failure of the Cuban Government to settle outstanding problems, but advised against tying in sugar procurement and price with other issues (837.61351/1-2748).

<sup>3</sup> Not printed..



information developed in the course of exchanges of views between the Embassy in Habana and the Department.

(1) The "purchase" of the settlement of problems is contrary to established American principles.

(2) Certain of the problems in question are of a juridical character and, therefore, not properly subject to settlement outside of judicial procedures which have been established for this purpose.

(3) The cost of "settlement purchase" might well be all out of proportion to the advantages gained and such cost would have to be borne by taxpayers of the United States.

(4) Conversely, to attempt a tie-in might result in the Department of Agriculture having to negotiate an uneconomic purchase of sugar on behalf of the War Department.

(5) To attempt to effect a tie-in between commodity purchases in Cuba with the settlement of outstanding problems between the United States and that country might be considered as a precedent for similar tie-ins in connection with the acquisition of copper in Chile, oil in Venezuela, grain in Argentina.

(6) The course of action to be pursued in Habana in connection with purchase of sugar by the Department of Agriculture would seem to be determined by either (a) a desire to purchase sugar cheaply for the U.S. Army or (b) to persuade Cuba to settle pending problems by purchasing its potential sugar surpluses and, therefore, assisting in the maintenance of a balanced economy in that country; it does not appear to be possible to accomplish both these objectives without partially excluding one or the other.

(7) A factor not to be overlooked is Cuba's demonstrated propensity to seize upon every opportunity to renew its agitation with regard to what it considers "economic aggression".

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837.61351/2-448

*The Ambassador in Cuba (Norweb) to the Secretary of State*

No. 85

HABANA, February 4, 1948.

SIR: I have the honor to report that Mr. James Marshall, Director, Sugar Branch, Production and Marketing Administration, of the Department of Agriculture, has returned to Washington without being able to reach an agreement for the purchase of sugar for use by the Army in occupied areas. On January 27 Mr. Marshall informed the Sugar Stabilization Institute that he was prepared to discuss the purchase of up to one million tons; but the Cubans stated that, in view of the varying points of view within the industry, they were not prepared to quote a price and requested Mr. Marshall to do so. He indicated that for one million tons he could pay 3.5 cents per pound f.o.b. Cuban port. The meeting adjourned in order that the Cubans might discuss the offer with various sectors of the industry and the Govern-

ment. The Cubans did not reply to Mr. Marshall's offer until the evening of February 2 when they indicated that they could not consider any price below 4.5 cents (which incidentally is the present price for sales to the United States market). Due to the wide difference in prices, Mr. Marshall returned to Washington on February 3.

Mr. Marshall explained that his offer provided an opportunity for Cuba to dispose of a large part of its surplus 1948 crop sugar to consumers who would otherwise not be able to purchase from Cuba, and that in view of the relief nature of the proposed purchase, he was prepared only to consider prices near those that prevailed on the world market before his trip to Cuba.

The Cubans argued that the Government's Decree fixing 1948 wages at the 1947 level resulted in maintaining a high cost of production and prevented them from accepting a price much below that of 1947. Neither the cost of living nor the prices of items imported from the United States had decreased. They mentioned that certain elements of the industry were still supporting the idea of "coordinated sales" and fixed minimum prices, and stressed the continual uncertainty as to the Government's sugar policy. They admitted that Cuba might not be able to sell all its 1948 production at the price they had in mind, but in that event they would either carry it over into 1949 or conceivably might restrict the 1948 harvest. They also argued that high costs of production had resulted in sharply reducing new plantings and the cultivation of existing fields, and consequently the 1949 crop would be sharply reduced.

During the early part of January, Cuba was selling world market sugar at 3.65 to 3.75 cents, but during the last week of January, speculative purchases by Cubans, proposals for a single seller and rumors of the Army's requirements resulted in a sharp rise to 4.10 or 4.20 on the very thin futures market. Most of this rise occurred in one day when the total sales on the New York futures market No. 4 Contract reportedly totalled only about 3,000 tons.

The opportunity of selling a million tons for the Army offered Cuba an unexpected windfall for disposing of most of the remaining unsold surplus. By selling this quantity Cuba could have (a) assured itself of maximum production in the 1948 crop, (b) assured orderly marketing with a minimum of interference, (c) discouraged competition in other countries, and (d) would have forced the necessary downward adjustment in cost of production to place the industry on a sound competitive basis for the future. Such a price adjustment in the world market share would have been much easier with the present large crop and high income, supported by the relatively large quota on the higher-priced United States market, than it will be when Cuba's crops are smaller and the total sugar income is drastically reduced.

Cuba's reaction to these negotiations is not yet clear. Most of the industry considered the price of 3.5 cents too low, but some mill owners let it be known privately that they would like to offer their sugar at prices well below 4.5 cents. A large crop with an unsold surplus of at least 1.5 million tons is still in prospect. This will bring with it serious problems of financing the harvest. The most dangerous aspect, however, is the possibility that certain elements of the industry and the Government may be encouraged to demand a single seller or a minimum price which in itself would aggravate the situation by discouraging sales and would cause very serious difficulties in financing, harvesting and holding the crop. If such radical proposals are not adopted, it is probable that a system of retained quotas will be adopted to limit the quantity available for sale on the world market at any given time.

By rejecting this offer President Grau's Administration appears to have lost an excellent opportunity to assure itself maximum stability for the rest of its political life. Labor interests already had been appeased by guaranteeing 1947 wage rates. Mill owners and colonos had been largely placated by the Government's promise to refund profit taxes offsetting one-half the cost of the wage Decree. The major sugar problem confronting the Administration was to find a market for the rest of the crop at a reasonable price. The possibility of selling one million tons to the Army would have provided just such an opportunity: but the Government, influenced by a few impetuous Cuban mill owners and colonos, was induced to reject this offer, thus leaving a major issue to confront the Administration during the campaign for election on June 1.

Respectfully yours,

R. HENRY NORWEB

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837.61351/2-648

*Memorandum of Telephone Conversation, by Mr. Leonard H. Price of  
the Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] February 6, 1948.

Mr. Marshall telephoned this morning to relate recent developments in connection with the efforts of the Commodity Credit Corporation (Agriculture) to purchase sugar in Cuba. He said that the price of 4.5 cents per pound asked by the Cubans in Habana was so far out of line that it was not even worth considering and that he had, therefore, taken a plane immediately to return to his office in Washington.

Mr. Marshall said that yesterday afternoon at four o'clock Ambassador Belt paid an unexpected call on Secretary of Agriculture Anderson. He said that Belt expressed the opinion that he and Sec-



retary Anderson could effect an early and mutually satisfactory arrangement for the purchase of Cuban sugar, if Mr. Anderson would accompany him to Habana by plane this morning. On the advice of Mr. Marshall, Mr. Anderson replied that in view of the price set by the Cubans in Habana during Mr. Marshall's visit, it would serve no useful purpose for Mr. Anderson to go there at this particular time. Mr. Anderson suggested that if and when Ambassador Belt could make a definitive offer of Cuban sugar at a reasonable price, he take the matter up with Mr. Marshall directly. This concluded Ambassador Belt's conference with Mr. Anderson.

Mr. Marshall said that later in the afternoon, at six o'clock, Ambassador Belt called at his office and immediately resumed his discussions regarding the possibility of an early sale of Cuban sugar to the CCC. Mr. Marshall said he told Ambassador Belt that the Department of Agriculture was not anxiously seeking sugar at this time but that if he could make a reasonable offer, Mr. Marshall would be glad to consider it. He said Ambassador Belt then suggested the price of 4.25. Upon Mr. Marshall's refusal, Ambassador Belt suggested 4.10. When Mr. Marshall indicated that this price could not be considered, Ambassador Belt then indicated that if the Department of Agriculture would accept a price which did not include the figure "3" he would communicate such an offer directly to President Grau and felt that arrangements could be made for its immediate acceptance. This was, of course, an indirect suggestion that 4. be the agreed upon figure.

Mr. Marshall replied that he did not feel the Department of Agriculture would be justified in making such an offer, in view of declining prices in the sugar market. He referred in this connection to the quotation yesterday afternoon in the sugar market of 4.04. When Ambassador Belt said that this figure would be accepted, Mr. Marshall indicated that the Department of Agriculture had every reason to expect sugar prices to go even lower in the next few days. Mr. Marshall said he mentioned the possibility of 3.65 or 3.75.

In the course of the discussions, Mr. Marshall mentioned to Ambassador Belt that he had received two recent offers of sugar from Peru and Brazil respectively. He said that 55,000 short tons were offered by Peru at 4.10, but were not acceptable. He said that an even lower offer was made by Brazil on the basis of 35,000 tons. He pointed out to Ambassador Belt that these quantities would be sufficiently large to ease the pressure, if the Department of Agriculture chose to accept them.

Ambassador Belt suggested another meeting with Mr. Marshall today and the latter agreed. Mr. Marshall said that he then told

Ambassador Belt that he was not trying to exert any pressure on him or on the Cuban Government in connection with the purchase of sugar, but that there were certain factors that had to be considered by the Department of Agriculture. Among these he said was the fact that a large delegation of beet sugar growers had recently visited the Department of Agriculture for the purpose of protesting the high level of sugar consumption which has been set as the basis for determining sugar import quotas. The beet sugar growers felt that the level was entirely too high and was having an undue influence on the domestic price of sugar. Mr. Marshall explained to Ambassador Belt that if it developed that the present level had to be lowered, this would, of course, result in a lowering of the quota of sugar imports from Cuba, with the consequence that Cuba would have more sugar to dispose of in markets other than the United States under its quota. Mr. Marshall went on to say that in connection with the efforts of this country to assist in the solution of the European food problem, pressure was being brought to bear on the Department of Agriculture by potato growing interests to effect arrangements for the dehydration of potatoes in large quantities for distribution in Europe. Mr. Marshall indicated that the Department of Agriculture would have to give in to this pressure unless more sugar became available for delivery to Europe.

After relating the above Mr. Marshall inquired whether in the course of subsequent conversations which he had reason to expect would take place with Ambassador Belt, he should make any effort to tie in the purchase of sugar with the settlement of our outstanding problems with Cuba. I replied that present thinking in the Department was definitely against such a tie-in, on the ground that it might well give the impression of a "purchase" of the settlement of such problems.<sup>1</sup> Mr. Marshall said he did not pretend to be an expert on such matters, but he could not help sharing the feeling that such an impression (i.e. of a "purchase") was unavoidable if a tie-in were attempted. He said that on the basis of the information I had given him he would studiously avoid reference to outstanding problems in his discussions with Ambassador Belt.

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<sup>1</sup> In airgram 157, February 10, not printed, Ambassador Norweb suggested that before the United States accepted a Cuban price offer for sugar for occupied areas, "it would seem useful to inform them that in view of the stability afforded to Cuban sugar industry this year should price be accepted by us, Cuban Government in turn should cooperate with prompt settlement outstanding current problems that burden us" (837.61351/2-1048).

S37.61351/2-1048 : Telegram

*The Ambassador in Cuba (Norweb) to the Secretary of State*

CONFIDENTIAL

HABANA, February 10, 1948—1 p. m.

169. Meeting of Cuban sugar leaders and Belt with President Gran yesterday afternoon apparently agreed to sell one million tons at 4 cents which Marshall reportedly accepted by phone. Important reservation, however, that army can move only through deep ports still unacceptable Cuba.

NORWEB

S37.00/3-248

*The Ambassador in Cuba (Norweb) to the Secretary of State*

CONFIDENTIAL

HABANA, March 2, 1948.

No. 165

SIR: I have the honor to forward the following comments regarding the political implications in Cuba of the recent purchase by the United States of one million tons of Cuban sugar outside the United States quota.<sup>1</sup>

The recent agreement by which the United States purchased one million tons of Cuban sugar outside of the United States quota has special political implications coming as it has only three months before general elections in Cuba. It will claim a leading place among the chief accomplishments of the Anténtico Administration and thus contribute immeasurably to its prospects of success at the polls. This transaction has afforded additional political leverage from the fact that publicity, chiefly of Cuban origin, has created the widespread impression that the Administration not only initiated the negotiations but by exceptionally astute effort concluded the contract, so advantageous to Cuba's principal source of national wealth and employment. This distortion of the facts was made possible because the Cuban Ambassador in Washington, Guillermo Belt, was afforded an unprecedented opportunity for that purpose by the inept manner in which publicity was handled by our news agencies in Washington. Practically no publicity emphasizing the fact that the United States initiated the negotiations

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<sup>1</sup> Translation of Decree no. 586 providing for the segregation of 1,250,000 long tons of Cuban sugar of the 1948 crop, was published in the *Gaceta Oficial* of February 26 and effective on that date; before the Decree was drawn up in final form, agreement had already been reached on the sale of 1,000,000 short tons of this segregated quantity for the use of the United States Army in Occupied Areas. This sale left Cuba with an estimated "surplus" of only about 420,000 short tons (370,000 long), according to despatch 190, March 9, 1948 from Habana, not printed (S37.61351/3-948).



and that most of this sugar would probably be given away has appeared in Cuba.

In the last two or three months one of the most critical questions in Cuba has been the disposal of the 1948 sugar crop. It could have been a tremendous factor against the Administration in the June 1948 elections. The shortage of dollar exchange throughout the world and the inability of Cuba to deal in any other currency made it seem very likely that a huge surplus would remain unsold this year. Despite this, however, in answer to labor pressure the Administration went ahead in December and decreed that the high 1947 wages should be paid during the 1948 crop—thus apparently going way out “on a limb”. Now, however, the Grau Administration is able to say that it took the necessary steps for the sale of one million tons of sugar outside the United States quota, that it refused the first offer of the United States of 3 and  $\frac{1}{2}$  cents as too low, and that it forced the price up to 4 cents a pound (a price above the average which might have been anticipated if any effort to dispose of a large amount of sugar on the world market had been necessary). Although the internal difficulties in the Auténtico Party continue unsolved and although the events of the last two months would not normally have enhanced the prestige of the Administration, the completion of the sugar deal has given the Grau Government a most powerful political card.

This coup was accomplished by Belt and President Grau despite the fact that when Belt was negotiating in Washington he had no sugar to sell and when he and Grau were negotiating in Cuba with the mill owners and cane growers they had no definite purchaser. By the use of clever maneuvering they have managed, however, to bring the deal off, a triumph for which the Cuban Government has not been obliged to give any *quid pro quo* whatsoever.

Respectfully yours,

R. HENRY NORWEB

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837.61351/3-1648 : Telegram

*The Ambassador in Cuba (Norweb) to the Secretary of State*

CONFIDENTIAL

HABANA, March 16, 1948—4 p. m

327. Cubans are now in Washington (Embtel 312 March 12<sup>1</sup>) to ascertain whether or not we will purchase additional sugar for relief which would solve important economic problem here largely precipitated by political opportunism present administration. (Embtel 107 January 27 and Embassy's A-157 February 10<sup>2</sup>). Can we not properly

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<sup>1</sup> Not printed.

<sup>2</sup> Neither printed.

give noncommittal reply that we are presently concerned rather with prompt settlement of our long standing problems with Cuba.<sup>3</sup>

NORWEB

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<sup>1</sup> In telegram 350, March 17, 5 p. m., not printed, the Department of State informed the Embassy in Cuba as follows: "Cubans here settling terms detailed purchase contract one million tons sugar already committed to be purchased. Not considering additional purchases this time" (837.61351/3-1648). The United States-Cuban purchase contract was signed April 7, 1948.

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710.J/4-748: Telegram

*The Acting Secretary of State to the Embassy in Colombia*

CONFIDENTIAL

WASHINGTON, April 8, 1948—6 p. m.

Bogdel 57. For Smith.<sup>1</sup>

Last year before 202(e) clause<sup>2</sup> was even conceived, Belt in discussion with officers Dept re preliminary sugar quota formula drafted by representatives U.S. sugar industry stated categorically that his Govt would impose import restrictions on American products such as radios, refrigerators, automobiles, and take other measures which would be detrimental U.S. commerce if sugar legislation considered unfair Cuba was enacted. (ReDelbog 42, April 7<sup>3</sup>) This was considered threat economic aggression and strengthened Dept's conviction that some measure should be found to protect American interests, since it was evident Congress would not enact sugar

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<sup>1</sup> H. Gerald Smith, Special Assistant to the Assistant Secretary of State for Economic Affairs (Thorp): Alternate Delegate, Ninth International Conference of American States, Bogotá, Colombia. March 30-May 2, 1948. For additional documentation on the Bogotá Conference, see pp. 1 ff.

<sup>2</sup> Section 202(e) of the Sugar Act of 1948 provided that, whenever the Secretary found that any foreign country denied fair and equitable treatment to United States nationals, industries, commerce, or navigation and so notified the Secretary of Agriculture, the latter might withhold any increase in the United States sugar quota provided for that country over the quota allowed under the Sugar Act of 1937. A bill, S. 2511, "Repealing section 202(e) of the Sugar Act of 1948" was introduced in the United States Congress on April 19, 1948 and referred to the Senate Committee on Finance for consideration (837.61351/4-2148, telegram 428 to the Embassy in Cuba).

<sup>3</sup> Not printed. In this telegram Mr. Smith requested: (1) Examples of action by the Cuban Government against United States interests which could be interpreted as economic aggression, to be used in connection with the forthcoming debate with Ambassador Belt (Chairman of the Cuban Delegation) on economic aggression; (2) any evidence that Belt had expressed himself as satisfied about the 1947 settlement of the 202(c) problem; and (3) brief details regarding the recent million-ton purchase Cuban sugar by the United States.

On April 23 a Cuban proposal was introduced at the Bogotá Conference that an article be incorporated in the Charter and the economic agreement to the effect that no state should apply unilaterally against another state coercive measures of an economic, financial, or commercial character, even when the latter had refused to accede to its demands; see article 16 of the Charter of the Organization of American States, article 8 of the Economic Agreement of Bogotá, and, for further information, *Ninth International Conference of American States, Bogotá, Colombia, March 30-May 2, 1948: Report of the Delegation of the United States of America with Related Documents* (Department of State pub. 3263).

quota legislation which Cubans considered fair. Sugar Act 1948 assures Cuba minimum 28.6% U.S. consumption requirements, but at normal consumption level Cuba receives larger share including 95% Philippine deficit. Belt, however, stated in note dated May 20, 1947 <sup>4</sup> that his Govt considered 53% U.S. consumption requirements fair and equitable share for Cuba.

Following Cuban laws are detrimental to American interests and might conceivably be interpreted as economic aggression:

a. Decree no. 5 of January 1947 requiring certain types cargo transported in railroad cars via car ferry vessels be unloaded and examined port of entry, is onerous measure adversely affecting Seatrain Lines, large American steamship company. Prior enactment this decree cargoes in cars were not cleared through Customs until arrival final destination. This decree therefore nullified through transportation feature for which seatrain service especially designed and forced company discontinue carrying cargoes subject discharge and examination port entry.

b. Decree no. 4504, Dec 18, 1947 prohibits termination agency contracts between foreign principals and Cuban agents except in certain instances and then only on approval Ministry of Labor, notwithstanding provisions existing contracts governing termination. This restrictive law in effect places U.S. firms in position of having their contractual relationship with Cuban agents under complete jurisdiction Minister of Labor. Protests U.S. Embassy have thus far been unavailing and there is no indication Cuban Govt intends rescind decree or even remove most objectionable features. Copy of decree together with interpretive comments being airmailed.

2. Belt in conversation with Armour on August 8, 1947 stated President Grau was entirely satisfied with Secretary's letter August 8 to President Truman <sup>5</sup> pointing out that 202(e) was not intended to substitute for or replace the orderly processes of settling differences including international arbitration. He said they would have liked the language to be little more specific but assured Armour they were not disposed question it and repeated they were entirely satisfied. When Armour expressed hope publication of Secretary's letter would clarify situation and that Belt or his Govt would make this clear, Belt said he would see to it that Cuban Govt's approval of action taken to clarify issue was made officially known both in Cuba and other American republics. Not only did Belt fail carry out this commitment, but few days later at Rio <sup>6</sup> he made bitter dissertation on economic aggression which was obviously directed against U.S.

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<sup>4</sup> Not printed.

<sup>5</sup> For memorandum of conversation, August 8, and telegram 394, August 8, 1947 transmitting text of the Secretary's letter, see *Foreign Relations*, 1947, vol. VIII, p. 622.

<sup>6</sup> Inter-American Conference for the Maintenance of Continental Peace and Security, Quitandinha, Brazil, August 15–September 2, 1947.



3. Million short tons Cuban raw sugar purchased by CCC in behalf of Army at 4 cents pound f.a.s. Cuban ports. World sugar price prior to opening negotiations between CCC and Cuban Govt reached low of 3.65 cents f.a.s. This large purchase Cuban surplus removed heavy burden from Cuban industry and Govt, helped solve sugar labor problem in face forthcoming elections and otherwise assisted in stabilizing Cuban economy.

4. In connection Cuba's notorious record failure comply with international commitments you are reminded of numerous violations U.S.-Cuban trade agreement and of consistent Cuban refusal to settle claims U.S. citizens adjudicated by Cuban courts. Repeated failure Cuban Govt over such long period to give effect to decisions rendered against it by Cuban courts is believed unprecedented in any country in the world.

Repeated to Habana by air pouch.

LOVETT

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837.61351/4-2848

*Memorandum by the Deputy Director of the Office of American Republic Affairs (Woodward) to the Assistant Secretary for Economic Affairs (Thorpe)*

CONFIDENTIAL

[WASHINGTON,] April 28, 1948.

During the past few days discussions have taken place in Washington with Ambassador Belt and in Habana with the Cuban Foreign Minister<sup>1</sup> regarding a decision of the Cuban Cabinet to promulgate a decree authorizing the seizure of the American-owned Tanamo Sugar Mill. This decision was made with a view to settling a dispute between the mill and the cane growers over the interpretation of a contract governing the price of cane.

The Foreign Minister on Friday, April 23, informed Ambassador Norweb that he did not favor government intervention in this instance and that while something would have to be done to resolve the dispute, assurances were given that the intervention decree would not be signed until the interested parties had had an opportunity to resolve their differences. Moreover, Ambassador Belt on Monday, April 26, informed Mr. Walker of CRB that he had spoken by telephone with President Grau that morning and had received assurances that the parties to the dispute would be given an opportunity to settle the controversy. The Ambassador also stated that he had informed the President that he considered reasonable the mill's position that it would be willing

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<sup>1</sup> Rafael P. González Muñoz.

to deposit funds either with a bank or the court to cover any increase in the price of cane which might conceivably be ordered by the court.

Despite the foregoing assurances, the decree was signed and appeared in a special edition of the *Official Gazette* dated April 26, which was published yesterday. Representatives of the mill state that they have not been afforded an opportunity to confer with the cane growers and that they take a very dim view of this recent development which indicates that the executive branch of the Cuban Government intends to ignore completely the established judicial channels for settling contractual disputes and to take arbitrary action of a drastic nature.

Although the Foreign Minister informed Ambassador Norweb last evening that the decree would be held in suspense and that he would again confer with the President on the matter, the fact remains that the decree has been published and might be invoked at any time. The implementation of this decree would establish a most undesirable and dangerous precedent so far as American interests in Cuba are concerned. I would, therefore, suggest that you telephone Ambassador Belt, who is now in New York, and express to him the Department's deepest concern over the matter, as well as the hope that the decree will be rescinded. I would further suggest that you may wish to point out to him that it seems most unfortunate that this serious problem has arisen at a time when the Senate Finance Committee has under consideration a bill for the repeal of Section 202(e) of the Sugar Act.

We have been asked by the Senate Finance Committee to express our views on this pending bill, and the general consensus of opinion in the Department prior to the Tanamo development was that we should inform the Committee that we have no objection to the repeal of 202(e), since circumstances under which it might be invoked now appear remote. It might, however, now be difficult for the Department to take such a position, in the light of the Cuban threat to seize the Tanamo mill.

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837.61351/4-3048 : Telegram

*The Secretary of State to the Embassy in Cuba*

CONFIDENTIAL

WASHINGTON, April 30, 1948—1 p. m.

US URGENT NIACT

443. Pls seek an immediate appointment with President Grau (retelcon Tewell<sup>1</sup>-Walker) and present strong oral protest re Tanamo issue along following lines:

"US Govt views with serious concern the seizure of the US-owned Tanamo sugar mill by the Cuban Govt and cannot help but feel that

<sup>1</sup> Harold S. Tewell, Counselor of Embassy in Cuba.

action of this kind is contrary to the cordiality, friendliness, and understanding that have always marked the relations between the two countries. Assurances were given me by officials of the Cuban Govt that the decree authorizing intervention would not be signed pending further negotiations between representatives of the mill and the colonos. Even after the decree was promulgated, I was given assurances that it would be held in suspense pending further discussion between the parties to the dispute. Representatives of the mill, I am told, went so far as to present a proposal for the purchase of cane under the terms demanded by the colonos pending judicial determination of the price due under the contract. This proposal is indicative of the earnest desire of the company to resolve the dispute and to adhere to the established judicial processes.

"While my Govt is of course not in a position to judge the merits of the evidence submitted by either party to the controversy and recognizes that this is a matter which falls within the province of the Cuban courts, it finds it difficult to believe that intervention was either necessary or justified.

"My Govt is therefore convinced that Your Excellency's Govt after further consideration of this matter will rescind the expropriation proceedings and return the mill to its owners."

MARSHALL

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837.61351/5-1048

*The Ambassador in Cuba (Norweb) to the Secretary of State*

No. 396

HABANA, May 10, 1948.

The Ambassador has the honor to refer to the Embassy's telegram No. 440 of May 9, 1948,<sup>1</sup> and to transmit, for the Department's records, copy and translation of the agreement signed on May 8, 1948,<sup>1</sup> between representatives of the Tanamo Sugar Company and of the cane growers, on the basis of which the Cuban Government is committed to immediate withdrawal of its occupation and intervention in Central Tanamo.

It is expected that the Minister of Agriculture will today issue a resolution withdrawing the intervention, and that the Cabinet will this week repeal the Decree of intervention.<sup>2</sup>

Mr. Philip Rosenberg, President of the Tanamo Sugar Company, and Dr. Arturo Mañas, the Company's counsel, have advised the Embassy that they are highly pleased with the terms of the agreement and have expressed their warm appreciation of the Department's and

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<sup>1</sup> Not printed.

<sup>2</sup> The Secretary of State was informed in telegram 444, May 12, not printed: "Government interventor Tanamo formally surrendered possession mill and properties to company May 11 pursuant to resolution issued by Minister Agriculture" (837.61351/5-1248).



Embassy's efforts on behalf of the Company which they feel were responsible in large measure for the satisfactory solution which has been reached.

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837.61351/6-148

*The Acting Secretary of State to Senator Eugene D. Millikin*<sup>1</sup>

WASHINGTON, June 2, 1948.

MY DEAR SENATOR MILLIKIN: Reference is again made to your letter of April 20, 1948<sup>2</sup>, requesting the State Department's comments on S. 2511, a bill "Repealing section 202 (e) of the Sugar Act of 1948."

In view of the fact that the intent of this section of the Act has been widely misunderstood and that circumstances under which the use of this section might be considered desirable now appear remote, the Department perceives no objection to its repeal.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

For the Acting Secretary of State:

CHARLES E. BOHLEN  
*Counselor*

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<sup>1</sup> Chairman, Senate Committee on Finance.

<sup>2</sup> Not printed.

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837.61351/6-848

*The Ambassador in Cuba (Butler) to the Secretary of State*<sup>1</sup>

CONFIDENTIAL  
No. 488

HABANA, June 8, 1948.

SIR: Inasmuch as Cuba at this moment faces a very serious problem in finding a profitable dollar outlet for about 1,500,000 short tons of sugar from the largest crop the country has ever produced, I have the honor to suggest that this is a propitious time to negotiate a settlement of our principal long-standing problems with this country.

In making this suggestion I take into consideration the fact that undoubtedly additional sugar from this Hemisphere will be required for the Economic Cooperation Administration program and that the recent Cuban general elections have not only removed that event as an obstacle to negotiations but have given some indication of the

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<sup>1</sup> On June 9 Ambassador Butler also addressed a personal letter on this subject to Assistant Secretary Armour.

character of the administration that will hold office for four years beginning in October.<sup>2</sup>

The recent reduction of 500,000 short tons in the United States sugar consumption quota, which reduced Cuba's share in our market by approximately that amount, plus an unplaced surplus of about 1,000,000 short tons of world quota sugar, presently confronts Cuba as a problem of the first magnitude, involving as it does a heavy financial burden on the industry from the standpoint of payments for cane and wages, and uncertainty as to certain government revenues derived from sugar. The problem of accumulating stocks of unsold sugar, therefore, is of deep concern to the basic Cuban industry and to the Cuban economy in general, as well as to the Government. This has been evidenced recently by daily newspaper editorials, by the recent visit of representatives of the Cuban sugar industry to Washington, and by the more recent call of Ambassador Belt on the Secretary of Agriculture.

On the other hand, the present Cuban administration and its predecessor have allowed to grow and to accumulate an increasing number of problems that greatly concern us, and from what is now known about the next administration there is little ground for optimism that progress will be made in any early solution of such problems without insistent urging and prodding on our part. Without relation to order of importance I list such problems briefly as follows:

1. Negotiation at once of a Treaty of Friendship, Commerce and Navigation (under any appropriate title);
2. Payment immediately of claims to American citizens;
3. Setting up promptly of a claims commission;
4. Settlement at once of the Seatrain problem;
5. Abrogation immediately of Decree No. 4504;
6. Correction immediately of violations of the Trade Agreements.

I suggest that there is nothing inconsistent in policy and procedure in requesting the present Cuban administration to demonstrate its adherence to the principles of fair and equitable treatment by clearing up these problems—not by promises but by performance—before any indication is given as to whether or not we will purchase additional Cuban sugar this year. In making this suggestion, because of the prevailing situation here, I see no reason for paying more for any such purchases of sugar than would be paid under other circumstances.

A transaction of the nature proposed would seem quite clearly to be on a Government to Government basis, since controls in Cuba would be exercised by an official agency. Moreover, such negotiations

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<sup>2</sup> Carlos Prío Socarrás, of the Auténtico Party, was elected on June 1 to succeed President Grau. For press release of October 1 concerning the inauguration of the President-elect, see the Department of State *Bulletin*, October 10, 1948, p. 471.

would not relate to trade with the United States, but to a voluntary relief purchase in an operation that is not habitual or continuing, and which therefore could not be construed as a coercive measure to gain advantage, the advantage in fact being obtained by Cuba.

I sincerely trust, therefore, that the Department, in collaboration with other interested agencies of our Government, may find it possible to work out an early solution for our pending problems with Cuba on the basis outlined above.

Respectfully yours,

ROBERT BUTLER

711.37/6-1648 : Telegram

*The Secretary of State to the Embassy in Cuba*

SECRET

WASHINGTON, June 18, 1948.

516. Discussion outstanding problems between two countries considered desirable and Dept concurs suggestion urtel 495, June 16.<sup>1</sup> Any discussion treaty should be confined to draft submitted by this Govt last year. In these conversations you should not inject *quid pro quo* proposal of your despatch 488, June 8, which will be subject of separate instruction.

MARSHALL

<sup>1</sup> Not printed; Ambassador Butler proposed his approaching President Grau in the near future with respect to outstanding problems with the Cuban Government and requested the Department's instructions (711.37/6-1648).

837.61351/6-948

*The Assistant Secretary of State for Political Affairs (Armour) to the Ambassador in Cuba (Butler)*

CONFIDENTIAL

WASHINGTON, June 21, 1948.

MY DEAR MR. AMBASSADOR: I have received your letter of June 9<sup>1</sup> suggesting that the settlement of various problems between the United States and Cuba be tied in with further purchases of sugar.

The Department is most anxious to effect a settlement of these problems, but I have some doubt as to the advisability of injecting all of these issues into our sugar procurement program on a *quid pro quo* basis. This seems to be particularly true with regard to a commercial treaty. While the conclusion of such a treaty is highly desirable, I do not believe that we should endeavor to force the Cuban Government to accept the treaty. The use of coercion might very well give rise to unfavorable repercussions in Cuba and the other American republics.

<sup>1</sup> Not printed.



The trade agreement violations are a source of concern to the Department and should be corrected. However, it is not felt that we should bargain with the Cuban Government in an effort to persuade it to comply with its commitments under an international agreement. The Cubans as a matter of principle should adhere to the provisions of the agreement and if these violations are not rectified, we will present the problem to GATT.

It might be possible to consider a *quid pro quo* strategy in the settlement of some of the problems such as the adjudicated and recognized claims, provided the volume of sugar to be procured this year will be large enough to provide adequate bargaining power. This possible approach will be given careful study in the Department and will be discussed with other government agencies. You will, of course, be promptly informed of the results of these discussions.

Sincerely yours,

NORMAN ARMOUR

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711.37/6-2848

*The Ambassador in Cuba (Butler) to the Secretary of State*

CONFIDENTIAL  
No. 564

HABANA, June 28, 1948.

SIR: I have the honor to refer to my telegram No. 495 of June 16, 1948, to the Department's telegraphic reply No. 516 of June 18, 1948,<sup>1</sup> and to report that today I had a pleasant interview with the President of Cuba, Dr. Ramón Grau San Martín, during which he informed me that he was very desirous of doing everything that he can to bring to a conclusion the problems which have been outstanding between the two countries.

With reference to specific problems, I first took up with him the proposed Treaty of Friendship, Commerce and Navigation. I pointed out that in January 1947 the Embassy had submitted to the Cuban Ministry of State a draft of a proposed treaty<sup>2</sup> on this matter between the two countries, with the suggestion that such a draft be used as a basis for negotiations which, it was hoped, could be initiated at an early date. I informed the President that the Embassy had not been favored with a reply to the note referred to or with an expression of the views of the Cuban Government on this matter. The President replied that he did not know of any objection to the proposed Treaty, that he would refresh his memory, and that he saw no reason why it should not be signed. I reported to him that there were some other 20

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<sup>1</sup> Telegram 495 not printed; for telegram 516, June 18, see p. 559.

<sup>2</sup> Not printed.

countries which had signed a similar treaty and that, in view of Cuba's splendid relationship with the United States, it was hoped that he would see to it that the matter be advanced. He assured me that he would promptly look into the matter. As added urging I informed him that I intended to leave for Washington about July 8th and I told him how much pleasure it would give me to be able to inform the President and the State Department that negotiations were under way.

With respect to the site for a building to house the Chancery in Habana, I informed the President that I was aware that the Cuban Government is disposed to make available the site in the area contiguous to the Maine Monument. I further informed him that the United States Government had offered to make available to the Cuban Government, on an exchange basis or by other suitable arrangements, three properties which it owns in Cuba. The President told me that the matter had been referred to the Public Works Department some time ago but that he had not received a reply. He stated that he was very much in favor of the project and that he would do everything possible to get a progress report on the subject within a few days. He expressed confidence that the obtaining of the site could be accomplished. He showed himself as enthusiastic over the Public Works Administration activities and beautifications and spoke of a number of other projects which had been carried out in Cuba during his administration. With respect to this matter, I also mentioned my proposed trip to Washington on July 8th.

Finally, the question of claims by American nationals against the Government of Cuba was raised. The President was reminded that this question has been unsettled for a long time and that it would be wonderful if he, before leaving office, had cleared it up. The President stated that the situation was very complicated and he did not give me a definite answer. The matter was not pressed as it was felt that the two questions previously taken up were of greater urgency at this time.

A general discussion ensued, two points of which are worthy of mention. The President expressed his hope of again visiting the United States, following the completion of his term of office, where he hopes to visit the Mayo Clinic and other American hospitals. He did not touch upon the sugar situation except in a roundabout way, with an expression of hope for any cooperation that I could personally furnish him with respect to the prosperity of Cuba, mentioning that sugar was a most important problem in Cuba—the United States being Cuba's greatest customer.

The President appeared to be in much better health than when I last saw him.

Respectfully yours,

[ROBERT BUTLER]

837.61351/7-1648

*Memorandum of Long Distance Telephone Conversation, by Mr.  
Leonard H. Price of the Division of Caribbean Affairs*

CONFIDENTIAL

[WASHINGTON,] July 16, 1948.

Participants: Ambassador Butler  
Mr. Walker—CRB

In the course of a conversation on various subjects, Mr. Walker took occasion to inform Ambassador Butler that his recent proposal to use sugar purchases by this government in Cuba as a leverage with which to effect the prompt settlement of certain outstanding problems between the United States and Cuba had been discussed among the officers of the Department of State, the Department of Agriculture, and the Economic Cooperation Administration (ECA) in the Department of Agriculture yesterday. He said that the conclusion reached in that meeting was that since the Commodity Credit Corporation (CCC) would not have occasion to purchase more than 300,000 tons of sugar, and since ECA contemplated purchases by the beneficiary European countries of only a very small quantity, none of these purchases would serve the purposes contemplated by Ambassador Butler . . . .

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711.37/8-548

*Memorandum Prepared in the Department of State*<sup>1</sup>

SECRET

[WASHINGTON, July 29, 1948.]

Subject: Current U.S. Policy toward Cuba

*A. Objectives*

Cuba, because of its nearness to and historical ties with the United States, its status as principal sugar supplier of the U.S., and its American investments—which are among the largest in amount in any country—possesses an importance to the U.S. much greater than the island's size and its five million population would indicate. The maintenance of economic and political stability is therefore of particular concern to the United States, and encouragement of such stability is a fundamental objective in our relations with Cuba.

Although the maintenance of stability is the direct responsibility of

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<sup>1</sup>Memorandum prepared in the Department of State, without indication of authorship, for the Secretary of State. The copy printed here was sent to Secretary of Commerce Sawyer on July 29 and returned to the Department of State, as requested, on August 5.



the Cuban Government, Cuba's one-crop economy is almost entirely dependent on the United States; we could, by manipulation of tariff or quota affecting sugar, plunge the entire island into poverty. Cuba must continue to have a substantial share of the US sugar market in order to avoid serious political and economic problems.

It is our objective, in line with the commitments in the General Agreement on Tariffs and Trade and the ITO Charter, to eliminate or reduce particular United States tariff preferences to Cuba in which other countries are interested wherever possible in future trade agreement negotiations with them. We will, of course, consult in each case with the Cuban Government.

### *B. Policy Issues*

Although Cuba became a fully sovereign state in 1934 with the abrogation of the "Platt Amendment,"<sup>2</sup> the other American republics continue to regard Cuban-United States relations as a barometer of the Good Neighbor Policy and "non-intervention." Any action on our part which would seriously impair the Cuban sugar industry would be promptly interpreted as a disregard for the welfare of all the American republics—a factor which has not escaped the Cubans in their dealings with us.

The quota allocated to Cuba in the U.S. Sugar Act of 1948, though representing, at probable levels of consumption, an increase over the Cuban quota in the previous Sugar Act of 1947, is less than was recommended by the Department and appreciably less than Cuba hoped to obtain. Whenever new sugar quota legislation is considered, the Department will seek an increase in the Cuban quota on the grounds of (1) the great importance of the United States sugar market in Cuba's economy, (2) the benefit to the U.S. economy as a whole if more sugar were imported and less produced domestically under subsidy conditions, (3) the necessity for making U.S. practice consistent with our commitments on quantitative restrictions under the proposed International Trade Organization Charter.

We will continue to give token encouragement to the economic development of Cuba, particularly through the diversification and improvement of her economy, and to comply, as far as possible, with requests for technical assistance in any justifiable field of activity. We will not, however, support any request which the Cuban Government might make for U.S. credits so long as Cuba continues to ignore the settlement of various debts owed to U.S. citizens. Requests from private Cuban sources for financial assistance through transactions in which the Cuban Government might have the position of guarantor

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<sup>2</sup> See treaty of relations between the United States and Cuba, signed May 29, 1934, in *Foreign Relations, 1934*, vol. v, p. 183.

should be considered by our government agencies according to the criteria of economic justification.

We will also continue our efforts to solve serious commercial problems confronting U.S. business interests in Cuba, such as those created by a recent decree whereby foreign principals are prevented from making changes in their Cuban agents or distributors without the consent of the Cuban Government, by attempts made from time to time to shut out U.S. accountants sent to audit the books of U.S. companies in Cuba, and by a decree which makes it mandatory that shipments in railway cars brought over on the U.S. searail be unloaded at Habana in order to make work for Cuban stevedores.

If our efforts to persuade Cuba to comply with its trade agreement commitments produce no result, it is our intention to bring these matters before the contracting parties to the General Agreement on Tariffs and Trade as provided in Article XXIII.

We desire rights for four air carriers to serve Cuba on various international routes. Interim rights have been granted directly to those carriers by the Cuban Government on a basis not entirely satisfactory. However, as Cuba is known to desire certain rights for Cuban air carriers which, as a matter of domestic policy the United States cannot yet grant, intergovernmental discussions over air routes and a bilateral aviation agreement must be postponed until a more propitious time.

It appears possible that Cuba will attempt, under the guise of fishery conservation, to extend its territorial waters or its conservational jurisdiction into the high seas. We will discourage any Cuban action, by legislation, treaty, or otherwise, that would adversely affect U.S. fishing rights and interests.

We have achieved no success in our efforts to persuade the Cuban Government to settle claims of United States citizens amounting to almost \$9 million. Many of these claims have been adjudicated and the repeated failure of the Cuban Government over a long period to give effect to decisions rendered against it by Cuban courts is unprecedented. We will continue our efforts to effect a satisfactory settlement and to give particular emphasis to those claims which have been adjudicated.

### *C. Relations With Other States*

Cuba has taken an active part in the United Nations and was one of the original signatories to the UN Declaration. Cuba has also played an important role in inter-American affairs and has signed or ratified the majority of Pan American treaties and conventions.

Cuban compliance with inter-American treaty commitments as well as with other international commitments has been notoriously bad. Although Cuba successfully sponsored the Grau Doctrine on economic

aggression at the recent Bogotá Conference, it has not hesitated to apply prejudicial measures to United States business interests in a manner which might be interpreted as economic aggression. Last summer the Cuban Government not only permitted, but assisted, a full scale revolutionary movement directed against the Dominican Republic<sup>3</sup> in flagrant violation of its commitments under the Habana Convention of 1928. Although this movement was finally broken up by the Cuban Army, there have been rumors and some tangible indications that the Dominican revolutionary group may revive its activities in Cuba. Should these developments materialize, we will endeavor to persuade the Cuban Government to comply with its treaty obligations.

Aside from the Dominican Republic, Cuban relations with the American republics are generally cordial. During the past few months, Argentina has endeavored to strengthen its commercial and cultural ties with Cuba. Several important Argentine officials have visited Cuba and it was recently announced that Argentina would furnish capital for the establishment of a bank in Cuba and would assist in the development of the free port of Matanzas. Cuba has concluded a cultural agreement with Mexico and has shown a tendency to develop closer and more cordial relations with Haiti, presumably as an affront to the Dominican Republic.

Although Cuba maintains diplomatic relations with the USSR, the prestige and popularity of the Soviet diplomatic mission in Cuba have declined sharply during the past year. Strong anti-Communist measures taken by the Cuban Government have tended to reduce materially the effectiveness of the mission and also to worsen relations between the two countries.

#### *D. Policy Evaluation*

The implementation of some of our policy objectives poses various difficulties and requires full cooperation of interested agencies of this government, particularly in connection with any new sugar quota legislation. Although there is little likelihood of Cuba's receiving an increase in the existing sugar quota, because of almost certain domestic opposition, there is reason to believe that Cuba's share of the present basic import quota will not be reduced. In view of this situation, we will not encourage any Cuban hope of an increased quota but will urge on Cuba, as the opportunity offers, the wisdom of adapting its production to the contraction that will take place in its United States sugar market as the deficiency in the Philippine quota, at present supplied in major part by Cuba, declines.

It is anticipated that we will continue to be moderately successful in affording protection to US business interests by settling problems

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<sup>3</sup> *Foreign Relations*, 1947, vol. VIII, p. 643.



through diplomatic negotiations. Adequate long-range protection could, of course, be assured in a more effective manner through a treaty of friendship, commerce, and navigation; and efforts to conclude such a treaty will be renewed. Unfortunately, however, we will doubtless achieve little success until we are in a particularly favorable bargaining position because of strong opposition in Cuban labor circles and the fact that aliens, including Cubans, in this country already enjoy many of the rights we seek for United States citizens in Cuba.

Section 202(e) of the 1948 Sugar Act, which states that any increase therein provided in the share of a supplier country may be withheld on recommendation of the Secretary of State, was specifically designed to provide the Department with bargaining power in negotiating with the Cubans for a commercial treaty and for the settlement of various problems. The intent of this section was so thoroughly distorted that we concluded it would be unwise to use it and we have informed the Senate Finance Committee that we would have no objection to a pending bill providing for its repeal.

It is believed that our present policies are sound and, if effectively carried out, will serve to strengthen our relations with Cuba.

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837.61351/8-1248 : Telegram

*The Secretary of State to the Embassy in Cuba*

US URGENT

WASHINGTON, August 12, 1948—4 p. m.

608. Last night CCC concluded contract with Cuba for purchase 238,000 short tons sugar 4 cents per pound for use Army. Agreement provides Cuba will retain until Oct 15 reserve 228,000 short tons to meet any further increase requirements US market due to reallocation of deficits or increase consumption. Agreement also provides that if necessary grinding 1949 crop will commence early Dec in order make available 170,000 short tons this market first half Jan.<sup>1</sup>

MARSHALL

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<sup>1</sup> A copy of the Presidential Decree approving the supplemental Cuban-American sugar purchase agreement signed in Washington on August 11, as promulgated in *Official Gazette*, No. 201, August 28, was transmitted to the Department of State in despatch 723, August 31 from Habana, not printed (837.61351/8-3148).

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711.37/10-2148

*The Chargé in Cuba (Mallory) to the Secretary of State*

CONFIDENTIAL

HABANA, October 21, 1948.

No. 847

SIR: I have the honor to report that on October 14, 1948, Ambassador Robert Butler called upon the Minister of State, Ing. Carlos

Hevia, at the latter's request, to discuss pending problems. The Ambassador was accompanied by Mr. Mallory and Mr. Tewell. The Minister had previously indicated his desire of being informed of problems and, accordingly, there was prepared in the Embassy a memorandum setting them forth. A copy of the memorandum is enclosed (Enclosure No. 1) and provides a ready reference. It will be noted that most of the items are the same as the list of pending business transmitted in this Embassy's confidential despatch No. 461 of May 28, 1948.<sup>1</sup> The Minister of State had also mentioned to the Ambassador his desire to learn our attitude towards Spain, especially as relating to the United Nations. A brief statement was prepared from material furnished by the Department. This is enclosed (Enclosure No. 2<sup>1</sup>). It was believed desirable to seize the opportunity to make reference to tension in the Caribbean and, accordingly, a very brief statement of the United States position (Enclosure No. 3<sup>1</sup>) was prepared, to be followed up later.

During the conversation the Ambassador spoke chiefly about the site for the Chancery building (Item 3, Enclosure No. 1), urging the Minister to have a bill passed by the Congress of Cuba which would make possible a lease of 99 years on the property. The Minister promised to use his best efforts. The Ambassador also spoke of the Convention of Friendship, Commerce and Navigation, stating that he had taken the question up with former President Grau but the attitude of the Cuban Government was not yet known to us.

The Minister then proceeded to scan the list of items, asking questions at various points. He indicated some understanding of Item 6 on visits of naval vessels; he enquired into the background of the claims matter (Item 2) and passed most other items without comment. At the conclusion he stated his desire of proceeding with consideration of Items 1 and 3 and said he would very soon check into Items 10-L and 10-M relating to textiles. He pointed out his desire of placing the Ministry on a sound working basis and of getting problems solved. He said, however, that he could not do so immediately, first having to obtain competent assistants, and assistants that he could trust. This last statement is considered as significant, indicating some distrust of the inheritance from the previous administration, and of his desire to maintain an active interest in and control of current problems.

The Minister was assured of the desire of this Embassy to be of assistance at all times. The entire conversation was most cordial and was conducted in English, in which the Minister is fluent.

Respectfully yours,

LESTER D. MALLORY

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<sup>1</sup> Not printed.

[Enclosure-Extract]

## MEMORANDUM

The following questions of importance were pending between the Ministry of State of Cuba and the Embassy of the United States of America on October 10, 1948:

1. *Convention of Friendship, Commerce and Navigation*

On January 27, 1947 the Embassy addressed note No. 58 to the Ministry of State proposing that the Governments of Cuba and of the United States conclude a Convention of Friendship, Commerce and Navigation. The draft of a proposed Convention was transmitted with the aforesaid note as a suggested basis for negotiation and the Cuban Government was requested to indicate its views with respect to the proposals.

Since that time the subject has been frequently discussed between officials of the two Governments, including the President of the Republic of Cuba and the Ambassador of the United States. While the Cuban Government has indicated its agreement with the objectives of such a Convention, it has not replied to the Embassy's note above mentioned.

This matter was last discussed with the Minister of State on September 29, 1948, who informed the representatives of the Embassy that he would appoint an official of his Ministry to act as liaison with the Embassy in the discussion of the Convention proposals.

The Government of the United States is greatly desirous of concluding a Convention of Friendship, Commerce and Navigation with Cuba, which it considers of vital importance in the relations between the two countries and from which mutual benefits are expected to be derived.

2. *Claims*

On December 30, 1946, the Department of State addressed a note to the Cuban Embassy in Washington submitting certain proposals for the satisfaction of claims of United States nationals against the Government of Cuba, many of which date back to 1906.<sup>2</sup> A copy of said note was delivered to President Grau by the Ambassador of the United States on the same date.

The list of claims of United States nationals against the Government of Cuba which have been sustained in whole or in part by the Cuban courts and remain unpaid amounted, as of the date of the note, to the sum of \$1,338,798.52. Claims of United States nationals which have been acknowledged by Cuban Government agencies, but are as

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<sup>2</sup> See *Foreign Relations*, 1946, vol. XI, p. 769.



yet unpaid, amount, according to the latest available information, to \$5,168,592.97, while claims on which no evidence of Cuban Government acknowledgment or of court decision has been submitted amount to \$2,654,240.12.

The subject was last discussed by Ambassador Butler with President Grau on June 28, 1948, but as yet no reply has been received from the Cuban Government regarding the proposals submitted by the Government of the United States in the above-mentioned note.

[Here follow summaries of sixteen additional questions, with thirteen additional cases listed under trade agreement violations.]

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837.24/11-1848

*The Acting Secretary of State to the Chargé of Cuba (Barón)*

CONFIDENTIAL

The Acting Secretary of State presents his compliments to the Chargé d'Affaires ad interim of Cuba and refers to the Department's note of July 9, 1948, to the Embassy,<sup>1</sup> with which there were transmitted Statements LL-15 and LL-16 reporting charges against the Government of Cuba for defense aid transferred up to March 31, 1948 under the terms of the Lend-Lease Agreement signed by representatives of the Republic of Cuba and the United States of America on November 7, 1941.<sup>2</sup>

It now may be stated that, in the absence of any further billings from the United States Government's procurement agencies since the date covered by Statement LL-16, the figures reported in the Department's note of July 9, 1948 are to be considered complete and final. Therefore, it will be noted that the total value placed on the defense aid transferred to the Government of Cuba, on the basis of actual cost to the Government of the United States, is \$4,630,151.27 and that the overall repayment responsibility of the Government of Cuba amounts to \$2,700,767.23. Since there has been received payment on account in the amount of \$2,400,000, there now remains a balance due in the amount of \$300,767.23.

As the Embassy may be aware, the above figures relate only to that defense aid transferred under the specific terms and conditions of the Lend-Lease Agreement and do not include such related and still outstanding accounts as those representing cash repayment transactions, Military Air Transport Service or other similar accounts.

As the Government of the United States is desirous of closing all

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<sup>1</sup> Not printed.

<sup>2</sup> *Foreign Relations*, 1941, vol. VII, p. 116.

outstanding accounts of this character as soon as possible, an early settlement of these accounts will be appreciated.

WASHINGTON, November 18, 1948.

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711.372/11-2248 : Airgram

*The Ambassador in Cuba (Butler) to the Secretary of State*

CONFIDENTIAL

HABANA, November 22, 1948.

A-1319. For the information of the Department I quote below from a memorandum of conversation prepared following a meeting with the Minister of State on November 20:

"We had a talk regarding the Friendship and Navigation Treaty. He told me that it was going to be very difficult to get this through due to the political ramifications and the fact that it had been battered about by the Cuban press and politicians. He said he was giving it a good deal of consideration and he felt that his procedure would be that he would write us a letter stating that he is not interested in entering into the Treaty, but he would be interested in entering into some other kind of convention or other treaties that would incorporate practically the same thing as the Friendship and Navigation Treaty itself at the present time and he was working along these lines with his people. He said that he was anxious to have Ambassador Guell<sup>1</sup> work on this and that Guell is tied up at the present time, but that this is the first order of business. He said that the President himself is in favor of the principles of the Treaty, but, due to political reasons, he feels that he should not enter into the Treaty which bears the present name. He feels that to do so would cause the Cubans to turn it down; to enter into some other kind of treaty as outlined above would take the stigma off it due to the fact that it had been so vehemently opposed, that by going back and making suggestions to us to be incorporated under other names would get the desired effect that we wish.

"He brought up whether or not they could incorporate some kind of agreement on a quota for sugar. I informed him that I did not think this is the place to do it. He said that when he went to Washington he would take up with the President some kind of quota arrangement for sugar for the future."

BUTLER

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<sup>1</sup> Gonzalo Güell, Cuban Ambassador to Mexico.

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837.001 Prío Socarras, Carlos/12-748

*Memorandum by the Acting Secretary of State to President Truman*

CONFIDENTIAL

WASHINGTON, December 7, 1948.

The Cuban Foreign Minister has informed Ambassador Butler of several topics that President Prío desires to discuss during his visit

to Washington this month.<sup>1</sup> A list of these topics, together with a summary of each, is submitted below :

1. *Larger and Stable Share of United States Market for Cuban Sugar.* Cuba's share of the United States sugar market under the Sugar Act of 1948, which expires in 1952, seems relatively fair and reasonable. This Government is grateful for the role played by Cuba during the war in furnishing sugar and will, of course, continue to recognize Cuba's historical position in this market. It is considered most unlikely, however, that sugar legislation more favorable to Cuba than the 1948 Act will be enacted within the foreseeable future.

Cuba has benefited materially this year from Commodity Credit Corporation purchases of sugar (1,238,000 tons) for use in occupied areas, and from European sugar procurement financed by ECA (approximately \$35,000,000). It is anticipated that Cuba will benefit from these programs next year, although it is not known at this time how much sugar will be required.

2. *Technical and Economic Aid.* This Government will be pleased to give careful and sympathetic consideration to any Cuban request for technical and economic aid. It is hoped, however, that the Cuban Government will take steps to create a more favorable atmosphere for the investment of United States capital by eliminating some existing measures which tend to discourage such investments.

3. *Cuban Desire to Maintain Preferential Tariff on Sugar.* Consideration of tariff preferences is required of countries engaging in trade-agreement negotiations under the procedures established by the Contracting Parties to the General Agreement on Tariffs and Trade. At the request of several countries, sugar appears among the products listed by the United States for possible tariff concessions in the trade-agreement negotiations to be held with eleven countries at Geneva next April. If a reduction in duty on sugar were granted to another country, it would have the effect of reducing or eliminating the tariff preference which Cuba now enjoys. However, so long as the United States import quota system for sugar is in effect, Cuba receives no economic benefit from this preference.

No final decision can be made regarding the Cuban preference on sugar until the negotiations take place at Geneva. This Government, however, will gladly give full consideration to any representations which the Cuban Government may wish to make concerning this preference both before and during the negotiations. Cuba will, of course, be represented at the negotiations, and there will be consultation between the United States and Cuban delegations.

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<sup>1</sup>For statements concerning the visit of the Cuban President in the United States, December 8-11, see Department of State *Bulletin*, December 12, p. 743, and December 19, p. 778.



4. *Aid Cuba in Reducing Prices by Making Available Larger Supplies of Staple Foods and Fertilizers.* It is anticipated that the United States will be able to supply Cuba with greater quantities of fats and oils, including lard, during 1949 as compared with 1948. Every effort will also be made, within the limitations necessarily imposed by scarcity and world demand, to meet the requirements of Cuba with respect to other commodities now in short supply.

5. *Cuba's Cooperation in Case of War by Treaties and Alliances.* President Prío may repeat the suggestion recently made by the Cuban Foreign Minister that it would be desirable to include Latin American countries in the projected North Atlantic Security Pact. While appreciating the desire to be of assistance, which is believed to be sincerely motivated, the Department recommends that no encouragement be given to this idea. It is believed that Cuba and other Latin American countries can best contribute to peace and security through the provisions of the Rio Treaty. President Prío has informed us that he hopes Cuba will have ratified the Rio Treaty before his arrival in Washington.

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It is suggested that you may wish to bring to President Prío's attention two matters which are of considerable interest to this Government. One is a Treaty of Friendship, Commerce and Navigation which we have been trying to negotiate with the Cuban Government for the past ten years. The principal immediate objective of such a treaty is to enable American business concerns to bring into Cuba a reasonable number of American technicians and specialists, but the important long-term objective is to obtain a comprehensive expression of the Cuban attitude toward foreign interests which will increase the confidence of American investors and businessmen and thus stimulate further development.

The other item of interest involves the long pending claims of American citizens amounting to approximately \$9,000,000. Many of these claims have actually been adjudicated by Cuban courts and others have been recognized by agencies of the Cuban Government.

Neither the claims issue nor the treatment accorded American business firms is a problem which the Cuban Government should find difficult to resolve. However, they are problems which from time to time are aggravating and are not in harmony with the friendly and extensive commercial relations between the two countries.

ROBERT A. LOVETT

711.37/12-948

*Memorandum of Conversation, by the Acting Secretary of State*

CONFIDENTIAL

[WASHINGTON,] December 9, 1948.

Participants: The Acting Secretary  
Cuban Minister of State—Señor Carlos Hevia  
Ambassador Belt—Cuba  
Mr. Walker—CRB

The Cuban Minister of State, Señor Carlos Hevia, called on me this afternoon to discuss a number of matters regarding United States-Cuban relations. He said that President Prío's forefathers had fought in the Cuban struggle for independence and that because of this background, the President had an attitude of sincere friendliness toward the United States. In this connection, he mentioned that some Cuban officials friendly to the United States were reluctant to demonstrate their friendship because to do so might be considered politically unpopular in Cuba, but that President Prío was not afraid to show his sincere friendship for the United States.

The Minister referred to conversations last evening between President Truman and President Prío, and said that these discussions were carried out in a frank, sincere and friendly atmosphere. He explained that he wished to discuss with me various matters in the same atmosphere. I told him that the President had informed me this morning of his conversations with President Prío last evening and that I had looked forward to the opportunity of conferring with the Minister. I remarked that it was a real pleasure to be able to converse in such a frank and sincere manner.

The Minister stated that stabilizing the sugar industry was the most important objective of his Government. From year to year, he pointed out, it is not known how much sugar will be marketed, and, therefore, no long range planning can be made. He referred to the fact that sugar production is carried on for only four months each year, but that labor is paid for the twelve-month period. This system, he explained, results in high cost production, and the Cuban Government would like to develop other industries to supplement the sugar industry and to absorb idle labor during the so-called dead season. He specifically mentioned the development of Cuba's mineral resources such as iron and oil and the diversification of agriculture. Such a program, he said, cannot, of course, be carried out without economic and technical assistance from the United States. He also mentioned the desire of his Government to carry out a public works program designed to improve sani-

tary conditions by the construction of more modern aqueducts and sewage systems.

The Minister referred to the tariff preference on sugar which Cuba has historically enjoyed and emphasized the importance of this preference to Cuba.

He referred to the effort being made by President Prío to curb inflation and to reduce the cost of living. He went on to say that Cuba obtains many of its basic food commodities such as lard, oils, rice and flour from the United States and that his Government hopes that it will be possible for the United States to supply those commodities in greater quantity in order to assist in lowering the cost of living.

I informed the Minister that this Government was most appreciative of the role played by Cuba during the war in maximizing sugar production. I mentioned that the Cuban sugar industry had benefited from the purchase this year by the Commodity Credit Corporation of 1,238,000 tons of sugar and the ECA financing of European purchases which approximated \$35,000,000. I expressed the opinion that in all probability the over-all sugar situation would be approximately the same next year. With regard to stabilizing sugar, I said that this would seem to be extremely difficult to achieve because price is determined by supply and demand, and because some countries having lower cost of living are able to produce at a much lower cost than countries which have higher wages and living standards. I remarked that in connection with the market in the United States we always had to take into account the domestic sugar industry, as well as the producers in Hawaii and Puerto Rico. I expressed the hope that the Minister would understand our position in this regard.

With regard to increasing the supply of foodstuffs and other commodities, I told the Minister that there was reason to believe that the production of fats and oils, including lard, and fertilizers will be larger next year and that barring some unforeseen conditions, Cuba should be able to procure larger quantities. I also stated that while agricultural implements were still in short supply, there were indications that the supply situation will be much better next year. I said that I thought the supply situation with respect to rice and flour had already improved considerably. The Minister agreed that this was true and at the present time there was no shortage whatever of these two commodities in Cuba.

I informed the Minister that this Government would be pleased to further the economic cooperation between the two countries and to render technical assistance. I then informed him that we had some problems which we would like to have cleared up and that it did not seem that they would be too difficult to resolve. I referred to some



difficulties being experienced by American business interests in Cuba and to the efforts that were made over a period of years to conclude with Cuba a Treaty of Friendship, Commerce and Navigation. I explained that there was always some risk involved in any capital investment, but that a certain amount of security is expected. I then expressed the opinion that the creation of a more favorable atmosphere for capital investments might tend to stimulate further investment in Cuba which would result in the development of new industries. I also brought to his attention the long pending claims of American nationals against the Cuban Government.

The Minister said that he was aware of the problems confronting American business interests and that he had recently discussed this situation with several officials of the United States Chamber of Commerce in Cuba. He seemed to feel that none of these problems would be difficult to resolve and suggested that perhaps some over-all treaty or alliance could be concluded between the two countries. He said, however, that a Treaty of Friendship, Commerce and Navigation as such would be politically impossible because it has been the subject of so much unfavorable publicity during the past ten years, but thought that an agreement with another name would accomplish the same objective so far as the United States was concerned. I told the Minister that I foresaw no difficulty at all in finding a name which would be more palatable.

The Minister referred to the claims issue and said that it was the intention of his Government to settle these claims. He said that President Prío in his first message to Congress had requested the establishment of a Tribunal of Accounts to liquidate all existing claims. He pointed out, however, that the financial position of the Cuban Government was not good at this time and explained that when President Prío took over the presidency in October there were no funds at all in the treasury. He expressed the hope that the Government's fiscal position would improve materially next year.

The Minister said that he considered Cuba to be the southern boundary of the United States and that consideration should be given to an alliance between the two countries. I explained to the Minister that we have a mutual defense pact as the result of the Rio Treaty and that I did not believe an alliance would be possible. I also explained that the proposed North Atlantic Pact, which is patterned after the Rio Treaty, is designed to strengthen the Brussels Pact countries and as such to reduce the possibility of a world conflict.

The Minister said that he had merely mentioned the name alliance, but he thought any other name would do just as well. He pointed out that as a result of his experience in the Cuban Government during the

war with various war projects conducted in Cuba by the United States he believes that it is highly desirable that some over-all understanding be reached between the two countries so that Cuba will know exactly what its responsibilities will be in the event of war. He explained that had there been such an agreement before the last war, many problems of cooperation and coordination between the two countries would not have arisen. I suggested that it might be well to undertake some exploratory talks to determine whether some understanding might be feasible and also to determine what end product we had in mind. I stressed the importance of ascertaining what the end product should be before deciding upon what kind of factory should be built. The Minister agreed that this was a good suggestion and that if he had some definitive views in the matter, he would make them known to us.

L[OVETT]

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711.37/12-1048

*Memorandum of Conversation, by the Acting Chief of the Division  
of Caribbean Affairs (Walker)*

CONFIDENTIAL

WASHINGTON, December 10, 1948.

Participants: Señor Carlos Hevia—Cuban Minister of State  
Mr. Daniels—Director, ARA  
Mr. Walker—CRB

Mr. Daniels and Mr. Walker called at the Cuban Embassy today to confer with Señor Carlos Hevia, Cuban Minister of State, on a number of matters concerning United States-Cuban relations.

The Minister said that one of the most important objectives of President Prío is to further the economic development of Cuba and that to do so Cuba will require economic and technical aid from the United States. He said that Cuba must have new industries to supplement the sugar industry and also an agricultural diversification program.

The Cuban Government, he stated, desires to stimulate the development of Cuba's mineral resources such as iron, oil, manganese, nickel and copper. He mentioned that the Government plans a public works program for the improvement of highways, particularly small rural roads, aqueducts, and sewage systems. Such a program, he said, would require that the Cuban Government seek a loan.

Mr. Daniels remarked that the Cuban Government could hardly expect to attract foreign capital until a favorable atmosphere is created for investments. He said that because of the treatment accorded American interests in Cuba, he was not in a position to encourage capital investments in Cuba. He then referred to some of the problems facing

American business interests, such as the virtual ban on discharging employees regardless of the justification that might exist for their dismissal and also the restrictions governing the employment of aliens.

The Minister said that he was aware of those problems and that he was sure that some convention or treaty could be concluded which would resolve them and afford proper protection to foreign investments. He said, however, that it will be necessary to find a name for the convention which would be more palatable than the proposed Treaty of Friendship, Commerce and Navigation. Mr. Daniels agreed that this certainly would be advisable and suggested that we might call it an economic development convention.<sup>1</sup> The Minister concurred that this would be a far more appropriate name.

Mr. Daniels explained that it might be well to consider an over-all economic development program which would cover not only the convention itself, but a number of other items of interest to both countries. Such a program, he explained, could be prepared with a view to according many economic advantages to both countries. He said that he was aware of the fact that any sort of commercial convention might be the subject of considerable political opposition unless the Cuban Government were in a position to show that the convention was merely a part of an over-all program offering many inducements. The Minister said that he thought President Prío could get a convention ratified by the Congress, but that an over-all program such as suggested by Mr. Daniels would be more preferable.

Mr. Daniels said that there were many ways in which this Government could offer effective economic and technical assistance to Cuba and proceeded to outline these. He pointed out, however, that he was merely thinking aloud and trying to find a satisfactory basis for negotiating an over-all program, but he did not know whether these ideas would meet with the approval of his Government. The Minister said that he understood Mr. Daniels' position in this regard and that he himself had been giving some thought to a draft which might be used as a basis for further discussions. In fact, he said that such a draft might be finished before he left Washington, but he pointed out that it would be very informal and unofficial.

Some items which Mr. Daniels suggested might be embodied in an over-all economic and technical program were as follows:

1. *Economic Development Agreement which would contain principal points provided for in the draft treaty of Friendship, Commerce and Navigation.* Mr. Daniels took occasion to point out in this connection that one of the important clauses of such a convention would relate to the employment of American citizens and that it would prob-

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<sup>1</sup> A draft of a new treaty entitled "Convention of Establishment and Economic Development" was handed informally to the Cuban Minister on January 18, 1949.



ably be necessary for the Cuban Government to amend some of its unwise legislation. The Minister expressed the thought that this could be worked out without too much trouble.

2. *A statement outlining this Government's policy with regard to Cuban sugar.* Mr. Daniels thought it most unlikely that such a statement could be made owing to the fact that sugar quota matters fall within the province of the legislative branch of this Government, but he thought that some consideration might be given to it as a remote possibility.

3. *Technical assistance to be rendered by this Government through the loan of agricultural specialists, geologists, experts on fisheries, and possibly other persons qualified in specialized fields.*

4. *The granting of an Export-Import Bank loan for certain projects (which, of course, will be presented for consideration and agreed upon before any decision is reached).*

5. *A statement that the United States and Cuba will make a study of taxation matters with a view to concluding a tax treaty.*

6. *This Government, possibly through the Department of Commerce, will endeavor to stimulate interest on the part of private entities to assist in the economic and industrial development of Cuba.*

7. *A statement by this Government that it will take a sympathetic interest in any loan application submitted by the Cuban Government to the International Bank.* Mr. Daniels said that this was merely a thought of his and that he had no idea whether it would be feasible.

8. *A statement of policy of the two governments with respect to the treatment of capital investments in each country.* Mr. Daniels suggested that perhaps some of the language in the resolution of the Bogotá Economic Agreement on investments might be used. The Minister said that he would get a copy of the resolution and look into it.

The Minister seemed to be enthusiastic over the ideas expressed by Mr. Daniels and to be confident that there would be no objection to such an economic understanding. He expressed the hope, however, that it might be possible for this Government to assist Cuba in obtaining a larger supply of such commodities as rice, lard, fertilizers and edible oils. In this connection, he mentioned that the small exporters of lard engage in considerable speculation and that it would be very helpful if this Government could in some manner curb the speculative practices. Mr. Daniels said that the matter would be looked into and also that we would explore the possibility of including in the over-all program a general statement concerning the supplying to Cuba of fats and oils, rice and fertilizer.

The Minister stated that in his opinion an alliance or an understanding between the United States and Cuba outlining the responsibilities of each country in case of war was highly desirable. He referred to his experience in Cuba during the last war and to the many difficulties encountered due to the absence of any agreement between the two countries, and expressed the hope that something might be worked out. He had in mind particularly what would be required

of Cuba with respect to air bases, the alcohol industry, the Nicaro Nickel Company project, and other matters. Mr. Daniels said that we should certainly explore the matter with a view to determining whether some understanding might be reached.

It was agreed that further consideration would be given to the ideas exchanged in the conference today and that a draft would be prepared in the Department for use as a basis for negotiations. The Minister said that further discussions regarding the matter could take place here with Belt or could be held in Habana between himself and Ambassador Butler. In fact, he mentioned that he would be prepared to come to Washington should it be considered desirable.

## ECUADOR

### UNITED STATES RELATIONS WITH ECUADOR

611.0031/2-448

*The Ambassador in Ecuador (Simmons) to the Secretary of State*

RESTRICTED

QUITO, February 4, 1948.

No. 134

SIR: I have the honor to report to the Department that, during the course of a conversation which I had yesterday with Dr. Antonio Parra Velasco, Ecuadoran Foreign Minister, Dr. Parra took occasion to advance his criticism of certain aspects of our basic international commercial policies.

He said that he was puzzled by what he considered as a contradiction between two lines of commercial policy which we seemed to be following at the present time. The first of these he described as expressed by our strong position, taken at the Habana Conference,<sup>1</sup> in advancing greater freedom of international trade. He cited our strong pleas for the reduction or removal of many trade controls and barriers which now exist, and described our position as one seeking the ultimate goal of international free trade, particularly as regards the removal of controls such as now exist.

In contrast with this open-door policy, he raised the question of the Marshall Plan.<sup>2</sup> Here, he said, we are seeking to divert trade from its normal channels, on a large scale, and are trying to impose many new restrictions, in addition to the vast and complicated forms of control which now exist in regard to the foreign trade of most countries of the world.

He said that he found it hard to understand just what the trend of our foreign trade policy was, citing this apparent contradiction as the basic cause of his lack of understanding in this respect. As the conversation proceeded it became increasingly clear that, as regards foreign trade, it was our position in Habana which seemed to disturb him in particular. At this point he brought up his oft repeated theme of a closer form of commercial collaboration between Latin American countries, and advanced once more his strong advocacy of some form

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<sup>1</sup> For documentation on this subject, see volume I.

<sup>2</sup> For documentation on this subject, see volume III.



of regional agreement between Latin American countries, to which obviously the United States would not be a party.

I explained to Dr. Parra that there seemed to me no basic contradiction in the two attitudes of our government which he described. I showed that our foreign trade policy had been consistent during recent years in its advocacy of removal of restrictions on foreign trade in order to assure a larger and freer flow of goods between various nations. I spoke in particular of our various trade agreements, stressing their multilateral character. I said that the European Recovery Program naturally presents another problem having a direct bearing on our economic relations with Latin America but that the measures we were taking were of an emergency character and, also, that the proposals now being made to the United States Congress contemplate the use of substantial funds for purchases outside the United States of commodities not readily available in sufficient quantities there.

Dr. Parra, who is very positive and definite in his views, insisted that he still believed our policy to be contradictory and, towards the close of our conversation, he used the words "poco seria" in describing it.

I believe that the above statement of Dr. Parra's views will be of interest to the Department in connection with forthcoming discussions in the Bogotá Conference.<sup>3</sup> I feel sure that, in case the Department should see fit to give its own observations on Dr. Parra's views, it might be of interest in any further discussions which I may have with him.

Respectfully yours,

JOHN F. SIMMONS

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<sup>3</sup> For documentation on this subject, see pp. 1 ff.

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S11.20200(D)/3-448

*The Ambassador in Ecuador (Simmons) to the Secretary of State*

SECRET

QUITO, March 4, 1948.

No. 224

SIR: I have the honor to refer to the Department's mimeographed circular instruction of December 24, 1947,<sup>1</sup> entitled "United States Information Policy", with its enclosed memorandum entitled "U.S. Information Policy with Regard to Anti-American Propaganda", and to submit the following comment concerning this memorandum with particular reference to its applicability to the present situation in Ecuador.

The Communist Party in Ecuador is a small but closely knit orga-

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<sup>1</sup> Not printed.

nization. Its propaganda activities have little effect in Quito or other more or less isolated highland cities of this country, but its activities are apparent in more concentrated form in the commercial center and seaport of Guayaquil and to a lesser extent in other parts of the coastal region of Ecuador.

The general Communist line, discernible in its propaganda in other parts of the world, is parallel in Ecuador and consists in large measure in recurrent, although not too vitriolic, attacks on United States imperialistic policy, in support of a Latin American regional bloc of nations, presumably united against United States hegemony in the Americas, in attempts to belittle and undermine our European Recovery Program and, negatively, in an absence of criticism of Soviet obstructionist policies in world affairs.

In addition to these general lines of policy, there are certain special objectives of Communist propaganda which apply particularly to Ecuador. These consist chiefly in a more specialized attack against alleged United States imperialism, in the form of a whispering campaign, and occasionally, though not recent, press articles against the continuance of our maintaining an army base in the Galápagos Islands.<sup>2</sup> Another line of Communistic propaganda is a continuous stirring of ultra-nationalistic views in Ecuador. The basic objective of these views is thought to be that of arousing in this country a more basic and general anti-United States feeling. Its more particular manifestation, however, has recently been a series of attacks, both in the press and in private speeches, against alleged encroachments of Peru and against the injustice of Peruvian claims in the Lagartococha area which involves Ecuador's most recent boundary dispute with that country.

In general, the Communist line of propaganda has been to exploit the sad lot of the working man in Ecuador and to leave no stone unturned in increasing the already strong discontent of the Indians, prone to be somewhat apathetic as regards their low economic and social status here.

I thoroughly agree with the Department's viewpoint, as expressed in this memorandum, in regard to the new and more energetic line which we must take as a means of combatting this type of propaganda. The time has come when passivity or even a spirit of kindness or indifference towards Soviet attacks is not sufficient. We must increase the active aspects of our information policy and we must lose no time in carrying out such activities.

As for the best media of implementing this policy, it is my view

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<sup>2</sup> For documentation on this subject, see pp. 226 ff.

that, in general, the most important media would be the press, the radio and motion pictures, in that order.

As regards the press, I am convinced that a considerably more effective effort could be made through the improvement and enlargement of means which are in general already at our disposal. One handicap in our program of providing press material to the local newspapers is the fact that the Department's daily wireless bulletins are received here only four days or more after their dissemination from Washington. This is due to the fact that we have no wireless and receiving processing service here but must depend upon bulletins mailed either from Panama or Lima. The time lag involved here largely nullifies the value of this service. If funds could be provided for the setting up of a receiving and processing station at this Embassy, invaluable aid would be given to this form of press service, of which timeliness is the crux. I know from experience here that a considerable number of newspaper editors would be very happy to have material thus available given to them promptly and would use it to great advantage as regards our basic information program. I feel that, with the additional funds now available for the OIE service, it may be possible to enlarge our organization in Quito and to carry out a wider and better implemented program, particularly as regards the aspect of this question described immediately above.

As to the question of radio service, the psychology of the Ecuadoran people lends itself to a wide and rapid acceptance of programs having some special theatrical or emotional appeal. Short plays, sketches from the lives of our forefathers or of recent dramatic events in our history, short adaptations of certain of our folklore, biographical data or historical events, presented in attractive and dramatic form, are much more effective here than are the normal type of presentation by the simple exposition of facts, often presented in a too prosaic form and not calculated to capture the popular imagination in this country. Since there are few short-wave radio sets in Ecuador the objective should be to broaden and dramatize our locally disseminated long-wave programs.

As regards motion pictures, this program of course reaches a mass of the more uneducated Indian elements who might be impervious, due to their low educational and economic status, to other informational media. The type of program which is being found most effective consists chiefly of educational films, studies of plant and animal life, films concerning our industrial and engineering development and sports programs.

Among certain more general observations to be made concerning Ecuador, there are certain points which should never be lost sight of.



Our informational service has previously been too greatly concentrated in Quito and too little attention has been given to Guayaquil. Guayaquil is even more important than Quito as regards combatting Soviet propaganda and an immediate effort should be made to strengthen our informational service in that city.

Another factor in Ecuadoran life is the intense interest of the university student groups in both national and international politics. These groups are predominantly of a left-wing turn of thought, and include a large nucleus of communistic thought. A large number of socialists is also included among these university groups and there is no question that, although more vociferous than their actual political influence would justify, they do nevertheless represent a strong factor in the political and social life of Ecuador. Any plans for increasing and strengthening our informational program should always have this fact in mind.

The Ecuadoran press is in general most receptive to whatever timely material we may be in a position to give them, and an increase in our sources of material, as well as in our translating staff and in the general organization of our informational service, would be most helpful.

In conclusion, I cannot overlook one aspect of the situation as regards our informational activities in Ecuador. I refer to the unfortunate effect on local public opinion which has been caused by the publication of certain unsponsored articles, cartoons and photographs. Typical of this influence is a series of articles by American columnists which appears regularly in one of the Quito newspapers. In one of these recent columns, Mr. Drew Pearson was critical of what he considered General Marshall's timidity about aiding the allied cause before our entry into the war. In another column also published in Spanish under the name of the same columnist, a detailed description was given (*El Comercio*, December 15, 1947) of the secret intelligence service which has been established in all of our Embassies abroad. Some details of this service were given, and it was even stated that, in the case of one Embassy, the Ambassador himself was the actual agent concerned. . . .

Another example in point was the publication, under INS sponsorship in the local press, of photographs of American soldiers fraternizing supposedly with low-class Japanese women.

While I have nothing to suggest to remedy this situation, in view of our basic belief in the freedom of the press, I nevertheless cite it as an unfortunate influence which certainly does not help us in our efforts to improve our informational services abroad.

Supplementing the general observations which I have made herein,

I am forwarding to the Department with unclassified despatch no. 225 of today's date,<sup>3</sup> entitled "Suggested OIL [OIE] Program in Ecuador During Fiscal Year 1949", a memorandum, dated March 2, prepared by Mr. Francis W. Herron, Acting Public Affairs Officer of this Embassy, containing a number of practical suggestions for the OIE program in Ecuador during the fiscal year 1949. I endorse these suggestions and wish to forward them to the Department as my recommendations.

Respectfully yours,

JOHN F. SIMMONS

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<sup>3</sup> Not printed.

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811.516 Export-Import Bank/5-2148

*The Secretary of State to the Embassy in Ecuador*

CONFIDENTIAL  
No. 67

WASHINGTON, May 21, 1948.

The Secretary of State transmits herewith for the information of the Officer in Charge an agreement, signed May 12, 1948, between the Republic of Ecuador and the Export-Import Bank of Washington establishing a credit of \$2,720,000 to finance the cost of equipment, materials and services required in connection with the construction of the Quevedo-Manta Highway.<sup>1</sup>

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<sup>1</sup> For previous documentation on financing Ecuadoran highway development, see *Foreign Relations*, 1947, vol. VIII, pp. 690 ff.

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822.24 FLC/5-748 : Telegram

*The Acting Secretary of State to the Embassy in Ecuador*

RESTRICTED

WASHINGTON, May 29, 1948—10 a. m.

101. Reur despatch 414 dated May 7, 1948 and A-72 dated May 22, 1948<sup>1</sup> (from Brown, Acting, for Simmons) OFLC proposed to offer to Ecuador the seven vessels included in your despatch 414 for the total sum of \$19,500. This sales price has been developed in accordance with the pricing factor being uniformly applied to all countries in pricing Lend Lease vessels coming under the Naval Charter Party Agreements. The preference of OFLC is to make an initial offer of these vessels at the price being uniformly applied to other American Republics. As a matter of information this sum is less than what comparable ships could be purchased in the United States and is less than what it would cost to return these ships to the United States in the event of their return in accordance with the applicable

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<sup>1</sup> Neither printed.

provision of the Naval Charter Party Agreement. Formal offer to sell at \$19,500.00 will be made to the Ecuadoran Naval Attaché in Washington concurrently with the release of this cable. Department requests that Embassy stress to Ecuadorans importance of prompt action on this matter.

LOVETT

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822.24/7-2348

*The Secretary of State to the Embassy in Ecuador*

CONFIDENTIAL

WASHINGTON, July 23, 1948.

No. 94

The Secretary of State transmits herewith for the confidential information and records of the Embassy a copy of a note dated June 29, 1948,<sup>1</sup> received from the Embassy of Ecuador in Washington in which there is submitted a proposal for the settlement of the Ecuadoran lend-lease accounts. Also transmitted is a copy of the Department's note,<sup>1</sup> in reply to the Embassy of Ecuador in Washington from which it will be noted that it has been determined that settlement for the several vessels leased to the Government of Ecuador under Charter Party Agreements, contingent to the lend-lease program must be made in United States dollars. This is a change from the Department's earlier position as indicated in instruction No. 85 of June 30, 1948,<sup>1</sup> and has been made necessary by certain recent information received from the Department of the Navy.

Any further action taken in connection with the balance of the Ecuadoran accounts will be reported to the Embassy at an appropriate time.

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<sup>1</sup> Not printed.

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822.001 Plaza, Galo/9-348

*The Ambassador in Ecuador (Simmons) to the Secretary of State*

[Extracts]

No. 710

QUITO, September 3, 1948.

SIR: I have the honor to refer to my despatch no. 709 of today's date,<sup>1</sup> transmitting the Spanish text of Galo Plaza's presidential message on the occasion of his inauguration on August 31, and also containing

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<sup>1</sup> Not printed.



comments on all sections of that message with the exception of that section dealing with foreign relations.

I now beg to transmit my comments on that section of the message dealing with foreign relations:

Concerning this important subject, the presidential message began with a promise to cultivate jealously the friendship which binds Ecuador with other nations, particularly with its neighbors.

He spoke of a renewed international conscience which now governs international affairs, promising Ecuador's support for all international institutions based upon justice and right, citing in particular the necessity for closer economic relations among Gran Colombian countries, as a means of further strengthening the entire inter-American system, praising the work of the recent Bogotá Conference as a step towards a greater communication of nations under the aegis of the United Nations.

He made particular reference to the juridical equality of all nations based on mutual respect and on individual sovereignty, and upon the doctrine of nonintervention in the domestic affairs of other nations. In this connection he also mentioned the need for organized and basic solidarity against aggression and the scrupulous execution of and respect for existing international pacts. He promised a strengthening of the close relations existing among Latin American countries, mentioning in this regard, with particular opportuneness, the maintenance and cultivation of the cordial relations existing between Ecuador and the United States. The latter was the only foreign country mentioned expressly by name in his speech. He continued, however, by setting forth the obvious fact that the Hispano-American nations are joined by indestructible bonds, based upon their spirit and race, which should be strengthened and broadened. He said, however, that the latter nations and the United States should achieve, in the economic field, and for the mutual advantage of their peoples, a stronger continental union which should guarantee the rule of law and justice and the collective defense against possible aggressions.

. . . . .

In regard to the President's observations on foreign affairs, his reference to the need for friendship among the Hispano-American States, coupled with his particular stress in [on] relations with the United States, has aroused considerable interest in diplomatic and other circles here, and has been the subject of much comment. My interpretation of his observations, in which many of my friends here share, is that Galo Plaza intended to give a clear indication of a shift in the trend of future Ecuadoran foreign policy. The strong emphasis given by the former Foreign Minister, Dr. Antonio Parra Velasco, to regional

and general Latin American solidarity does not meet with the full approval of Galo Plaza, according to conversations which I have had with him. It is clear to me that, in his message he intended to convey the idea, in a delicate way, that, while he still approved of Latin American solidarity, he did not wish this to cause any lessening of the greater importance which he now intends to give to friendly relations with the United States. This idea seems to me inherent in the words which he expressed, although in saying these things he was careful not to give offense to the followers of the Parra doctrine, which is generally considered as implying a certain degree of unfriendliness towards the United States.

Knowing as I do the strong and friendly feelings which Galo Plaza has towards the United States, it will be interesting to watch the development and implementation of this feeling in the future attitudes and acts of the new government.

Respectfully yours,

JOHN F. SIMMONS

822.24/10-1248

*The Acting Secretary of State to the Embassy in Ecuador*

CONFIDENTIAL

WASHINGTON, October 12, 1948.

No. 135

The Acting Secretary of State transmits herewith for the confidential information and records of the Embassy a copy of the Department's third person note to the Embassy of Ecuador in Washington and a copy of Statement LL-17<sup>1</sup> reporting changes [*charges?*] made in the account of the Government of Ecuador during the period from June 1, 1948 through June 30, 1948 under the terms of the Lend-Lease Agreement of April 6, 1942.<sup>2</sup>

It will be noted that this is a final statement of account and that, in view of payments already made, the last remaining obligation of Ecuador under the Agreement is \$2,834.75.

The matter of the settlement for lend-lease vessels which was advised to the Embassy in the Department's instruction No. 94 of July 23, 1948 is still awaiting the action of the Ecuadorans. Meanwhile the Ecuadoran proposal for the settlement of the lend-lease balance and the cash reimbursable transaction in sucres is being held in abeyance. Failure to accept these vessels under the terms offered may necessitate

<sup>1</sup> Neither printed.

<sup>2</sup> *Foreign Relations*, 1942, vol. VI, p. 379.

the adoption of other disposal plans which might involve the return of these units to a port in the United States at the expense of the Ecuadoran Government as specified in the Naval Charter Party Agreements under which their lease was effected. As the cost of such return would approximate the offering price the economic result would not be advantageous to Ecuador. The Department suggests that, in its discretion, the Embassy informally discuss with appropriate Ecuadoran Government officials the substance of these comments.<sup>3</sup>

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<sup>3</sup> Receipt of partial payment for the seven naval vessels in the amount of U.S. \$16,317.44 was reported to the Department by Ambassador Simmons in despatch 36, January 12, 1949, not printed; receipt of the balance due of \$3,182.56 was reported by Ambassador Simmons in despatch 337 of May 3, 1949, not printed (S22.24 FLC/1-1249 and S22.24/5-349, respectively).



## GUATEMALA

### AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA RESPECTING THE INTER-AMERICAN HIGHWAY

[For agreement, supplementing the agreement of May 19, 1943, effected by exchange of notes signed at Guatemala May 18, 1948, entered into force May 18, 1948, see Department of State Treaties and Other International Acts Series No. 2001 or 62 Stat. (pt. 3) 3923.

In response to the proposal of the United States, the Guatemalan Government agreed to the proviso of the Congressional appropriation act of May 3, 1945 (59 Stat. 117) that Guatemala would impose no restrictions on the use of the Inter-American Highway, nor levy directly or indirectly any tax or charge for such use, by traffic or vehicles from any other country that did not apply with equal force to the like use of the highway by traffic or vehicles of Guatemala.]

## HAITI

### UNITED STATES EFFORTS TO ASSIST HAITI IN SOLVING FINANCIAL AND OTHER PROBLEMS<sup>1</sup>

838.24/11-1147

#### *The Department of State to the Haitian Embassy*

#### MEMORANDUM

The Department of State refers to a conversation between Their Excellencies the Foreign Minister<sup>2</sup> and the Ambassador of Haiti<sup>3</sup> and Assistant Secretary Norman Armour held at the Department on January 9<sup>4</sup> with regard to the Haitian Government's desire to obtain financial and technical assistance from the Government of the United States in connection with certain proposed projects in Haiti. It was noted that this matter has been the subject of several discussions and communications between the American Embassy at Port-au-Prince and the Haitian Government and that the former has requested of the Department of State this Government's views on the several questions raised by the Haitian Government. In the course of the conversation of January 9 it was agreed that the Department would make available to His Excellency the Foreign Minister through the Embassy of Haiti in Washington a memorandum summarizing the reply which the American Embassy in Port-au-Prince would simultaneously be authorized to make to the Haitian Government's inquiries on this subject.

Accordingly, the following points are presented for the information of His Excellency the Foreign Minister:

1. This Government is in accord with what is understood to be the previously expressed view of the Haitian Government that possible assistance by this Government in the development of the Artibonite Valley could best be accomplished through the activities of the Institute of Inter-American Affairs' Food Supply Mission in Haiti. This matter has been discussed with the Institute, which would be glad to cooperate on a mutually agreeable basis with the Haitian Government in its proposed irrigation project, and to this end it is suggested that

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 720-737.

<sup>2</sup> Edmé Manigat.

<sup>3</sup> Joseph D. Charles.

<sup>4</sup> Memorandum of conversation not printed.

the Haitian Government forthwith develop in conversations with the Chief of the Food Mission in Haiti a definite proposal for such cooperation. With respect to cooperation by the Institute with the Government of Haiti after June 30, 1948, this must depend upon the realization of the Institute's plans for continuing its operations in Haiti after that date. These plans are contingent, among other factors, upon favorable Congressional action on the Institute's proposed appropriation requests.

2. As regards the Haitian Government's plan for hydro-electric development, it is regretted that formal cooperation in a project of this nature is not within the scope of the operational activities of the Institute of Inter-American Affairs. However, representatives of the Institute in Haiti, at the request of and through informal arrangements with the Haitian Government, could be of some assistance in providing general advice and in obtaining the services of a private engineering firm for this project.

3. Should the Haitian Government desire to obtain additional financial assistance from this Government for projects it wishes to undertake, the Export-Import Bank is prepared to consider requests from the Haitian Government for financial assistance provided that the Haitian Government will support its requests by an adequate demonstration of the use to be made of the proposed financial assistance requested. These views of the Export-Import Bank were expressed in its memorandum of March 7, 1947<sup>a</sup> to the Haitian Financial Mission then visiting Washington. That memorandum refers specifically to a request for a new credit but applies equally to a request for assistance in the form of prolongation of the repayment period of the so-called J. G. White Public Works Loan of 1938. As the Bank stated therein, "If the Haitian Government wishes to select the most urgent and most desirable projects from the Haitian point of view and secure competent engineering and other technical assistance in developing all of the relevant information regarding this selected project, the Bank would be prepared to consider it on its merits and in the light of prevailing conditions in Haiti at that time and the status of Haiti's external indebtedness". The Bank reiterates this view and points out that only on the basis of a soundly developed engineering plan and reasonably reliable estimates of cost would it be possible for the Bank and the Haitian Government to determine the amount of United States financial assistance required and the best means of providing such assistance.

The Department therefore suggests that if the Haitian Government wishes to request financial aid in any form from the Export-Import

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<sup>a</sup> Not printed.



Bank, it prepare such plans and cost estimates, utilizing for that purpose the services of qualified engineering firms or individuals.

4. In general, with respect to the Haitian Government's desire to obtain immediate financial and technical help from the American Government in the projects set forth in President Estimé's letter of November 29<sup>6</sup> to Ambassador Tittmann, this Government will be more than willing, as indicated in the foregoing paragraphs, to consider any specific and detailed requests for assistance the Haitian Government may wish to present. At the same time the Haitian Government may be assured of this Government's sympathetic and continuing interest in efforts to develop the Haitian economy and to meet the world emergency need for foodstuffs, and of its willingness and desire to cooperate to these ends in any appropriate and mutually agreeable manner.

WASHINGTON, January 28, 1948.

<sup>6</sup> Not printed.

838.24/3-2448

*The Acting Secretary of State to the Embassy in Haiti*

CONFIDENTIAL

WASHINGTON, April 16, 1948.

No. 44

The Acting Secretary of State acknowledges the receipt of the Embassy's airgram No. A-124 of March 1, 1948 and also Embassy's despatch No. 135 dated March 24, 1948<sup>1</sup> concerning the full payment of the lend-lease indebtedness of the Government of Haiti.

For the information of the Officer in Charge and for the records of the Embassy there are transmitted herewith copies of a note from the Embassy of Haiti in Washington dated March 22, 1948,<sup>2</sup>—to which was attached a check in the amount of \$33,000 in payment of the balance of the indebtedness under the "treaty" lend-lease account—and a copy of the Department's note of acknowledgement<sup>3</sup> to the Embassy of Haiti in Washington dated as above together with a copy of Statement LL-15<sup>2</sup> which accompanied the note.

It will be noted that the attention of the Government of Haiti has been directed to the fact that this settlement relates only to defense

<sup>1</sup> Neither printed; for the Department's proposal concerning final settlement of the Haitian lend-lease responsibility, see airgram 287, December 29, 1947 by the Acting Secretary of State to the Embassy in Haiti, in *Foreign Relations*, 1947, vol. VIII, p. 736.

<sup>2</sup> Not printed.

<sup>3</sup> Not printed; for the lend-lease agreement between the United States and Haiti, September 16, 1941, see *Foreign Relations*, 1941, vol. VII, p. 317.

aid transferred under the terms of the Lend-Lease Agreement and that outstanding unsettled accounts related to leased vessels and cash reimbursable transactions are subject to treatment apart from the lend-lease account in the matter of billing.

The Coast Guard Cutter, leased to Haiti under Charter Party Agreement, will be offered to the Government of Haiti at a very low price,—probably at \$6,000. Billings for cash transactions are the responsibility of the Treasury Department and the latest information at hand does not change the figures given in the Department's confidential instruction No. 25 of February 26, 1948.<sup>4</sup> Should any change be reported to the Department the Embassy will be informed.

The good offices of the Embassy in the matter of the lend-lease settlement have proved very helpful to the Department.

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<sup>4</sup> Not printed.

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838.24/5-1848

*The Secretary of State to the Embassy in Haiti*

CONFIDENTIAL  
No. 56

WASHINGTON, May 18, 1948.

The Secretary of State refers to the Department's instruction No. 44 of April 16, 1948 on the subject of the lend-lease accounts of the Government of Haiti.

For the information of the Embassy the Department has been informed by the Lend-Lease Fiscal Office of the Treasury Department that a statement covering "Lend-Lease Requisitions on a Cash Reimbursable Basis" billed through the period ending December 31, 1947 has been transmitted to the Embassy of Haiti in Washington. This statement indicates that, from a total amount billed of \$24,989.81 and after deducting a credit amounting to \$9,237.46, a balance of \$15,752.35 remains due.

For the further information of the Embassy authority has now been granted to the Office of the Field Commissioner, Office of the Foreign Liquidation Commissioner, to offer to the Government of Haiti the Coast Guard Cutter, leased under Charter Party Agreement, at a price of \$6,000. The original procurement cost of this vessel was \$140,000.

811.516 Export-Import Bank/5-2848

*Memorandum by Mr. Charles C. Hauch of the Division of Caribbean Affairs to the Assistant Secretary of State for Political Affairs (Armour)*

CONFIDENTIAL

[WASHINGTON,] May 28, 1948.

Pursuant to your request for information on the present status on Haitian requests for Export-Import Bank credits, the situation is as follows:

The Haitian request of February 7, submitted via our Embassy in Port-au-Prince, solicited credits for five projects totalling sixteen and one-half million dollars. These include: (1) the Artibonite Valley development project; (2) three small irrigation projects in other areas; (3) sanitary and hospital equipment; (4) a road building project in the Artibonite; and (5) a tourist development project. The Bank's reply forwarded by airgram to Port-au-Prince on May 3 stated in essence that it would be willing to give further consideration to the Artibonite and road projects, but felt that consideration of loan requests for the others should be deferred. The Bank suggested certain additional information which it must have in order to give further consideration to the Artibonite project. The next move, therefore, is up to the Haitians.

A separate request for a loan of \$4,000,000 was sent the Embassy in Port-au-Prince by note of May 4. This requested \$2,000,000 each for a water supply project for Port-au-Prince and Cap Haitien and for slum clearance and new housing in Port-au-Prince. These projects had originally been part of the tourism loan request, but were detached and submitted as independent projects on May 4. The Export-Import Bank has been considering this most recent request and it is my understanding it will shortly send the Department at least a preliminary reply for transmission to our Embassy.

811.516 Export-Import Bank/6-348

*Memorandum of Telephone Conversation, by the Assistant Secretary of State for Political Affairs (Armour)*

[WASHINGTON,] June 3, 1948.

I telephoned Mr. Martin<sup>1</sup> this morning and said I understood that the Haitian Ambassador (Mr. Charles) was to call on Mr. Gaston of

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<sup>1</sup> William McC. Martin, Jr., Chairman, Board of Directors, Export-Import Bank.



the Export-Import Bank today to discuss the following two Haitian loan requests: (1) the Artibonite Valley Development project; and (2) \$4,000,000 request for a water supply project for Port-au-Prince and Cap Haitien and for slum clearance and new housing in Port-au-Prince. I hoped he would be able to give a few minutes of his time and sympathetic consideration to these requests, and I hoped something could be done for Haiti, provided of course the Bank felt there was reasonable assurance of repayment and it could properly endorse the projects. I had always felt that as a Government we had a moral responsibility toward Haiti which put it in a somewhat different category from the other American Republics; that Haiti is a very small country, right at our doorstep that has had a difficult time; and that Haiti's record of payment on the 1922-23 loans had been good.

Mr. Martin said he entirely shared my viewpoint regarding our responsibilities toward Haiti and that he would be glad to study the requests himself and let me know the decision reached.

NORMAN ARMOUR

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S38.51/S-248: Airgram

*The Secretary of State to the Embassy in Haiti*

CONFIDENTIAL

WASHINGTON, July 1, 1948.

A-156. Reference is made to Embassy's despatch No. 195 of May 4, 1948,<sup>1</sup> with regard to the Haitian's desire to submit a separate application to Export-Import Bank for a \$4,000,000 credit for improvement of the water supply system in Port-au-Prince and Cape Haitian and a housing project in Port-au-Prince. This despatch, together with a copy of President Estimé's note of May 4, 1948 was referred to Export-Import Bank by the Department for its consideration. The following memorandum has been received from Export-Import Bank:

"The Export-Import Bank has considered the note presented to Ambassador Tittmann by President Estimé on May 4 and Embassy despatch No. 195 commenting thereon. As indicated in the Bank's memorandum of April 30, the Bank believes that it would be wise from the points of view of both the Haitian Government and the Bank to concentrate attention and effort at this time upon a single large undertaking. Consequently, the Bank is not prepared to consider applications for credits to improve the water supply systems in Port-au-Prince and Cap Haitian or to undertake the low-cost housing in Port-au-Prince until plans for the Artibonite Valley project have been completed and a decision has been reached with regard to Export-Import Bank assistance in the financing of that project. If a credit should be extended for that purpose and if progress should be made

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<sup>1</sup> Not printed.

in the execution of the Artibonite Valley project, it might be appropriate to consider applications to finance additional undertakings.

The Bank is sympathetic to the need of Haiti for a considerable number and variety of developments including some in the field of health and sanitation, but believes that it would be unwise to attempt to initiate a variety of projects of considerable magnitude simultaneously.

The Bank sees no objection, however, to the prosecution of studies and the preparation of plans by the Haitian Government, with appropriate technical assistance, for projects which may be undertaken in the future. It should be clearly understood, however, that there is no commitment on the part of the Bank to do anything more than to consider at some appropriate time in the future any plans or proposals which may be prepared and submitted. Furthermore, although the Bank has not been furnished any facts with regard to the proposed domestic water supply and housing projects, it is obliged to point out that in general such projects are rarely appropriate for financing by international loans. The Bank recognizes that such projects are desirable and often essential to the health and welfare of the people of all countries; however, they do not directly enhance the productive capacity of the country and thereby create the means by which there can be produced the additional goods out of which any loan must be repaid. The Bank prefers therefore to extend credits for projects which directly contribute to increases in production; it prefers ordinarily not to extend credits for projects which, although desirable, are not directly productive, unless of course repayment can be assured by other concurrent developments of a productive character."

Please convey foregoing, in your discretion, to Haitian Government.

MARSHALL

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811.516 Export-Import Bank/12-2948 : Telegram

*The Acting Secretary of State to the Embassy in Haiti*

WASHINGTON, December 29, 1948—6 p. m.

237. Directors Eximbank Dec 29 approved Artibonite credit \$4 million of which not to exceed \$3.2 million to be used finance purchase US equipment materials services required for construction necessary flood control irrigation and drainage works including land clearing and certain minimum essential roads. Balance \$800,000 to finance purchase US equipment materials services required in initial settlement and development irrigated area. Credit available to Dec 31 1951 to be repaid in 30 semiannual installments beginning 3 yrs after date first advance with interest 4 percent. Credit approved subject special terms and conditions certain of which must be fulfilled prior to disbursement funds.

Bank announcing to press for release Dec 31.

Credit as approved by Board differs from memo Haitians certain respects principally as follows (1) Bank agrees finance only cost US equipment materials services rather than 80 percent total cost (2) Bank requiring employment US technical assistance by Artibonite entity after completion construction and during operational period. Airgram follows.

LOVETT



## HONDURAS

### HONDURAN RESPONSE TO UNITED STATES NOTE OF 1940 REJECTING HONDURAN CLAIM OF SOVEREIGNTY OVER THE SWAN ISLANDS

811.0141 SW/4-2748

*Memorandum of Conversation, by the Chief of the Division of Central  
America and Panama Affairs (Newbegin)*

CONFIDENTIAL

[WASHINGTON,] April 27, 1948.

Participants: Sr. Julián R. Cáceres, Ambassador of Honduras  
Major Juan da Costa, former Military Attaché of  
Honduran Embassy  
Robert Newbegin, CPA

Upon his arrival this afternoon to discuss other matters, Ambassador Cáceres took a look at the map of Central America hanging on my wall and made reference in a joking manner to the Swan Islands, which he claimed as Honduran. I promptly stated that as far as the Department was concerned the Swan Islands were possessions of the U.S. In this connection, I referred to the Department's lengthy note rejecting a Honduran claim, stating that I could not recall the exact date since it was sometime before my service in the Department, but that I was of the opinion that it was approximately six years ago. The Ambassador suggested it was much more recent (the note is actually dated January 20, 1940<sup>1</sup>).

The Ambassador was informed that in the opinion of this Government, the islands belonged to the U.S., and that it had been assumed since no further comment had been made by the Honduran Government, that the latter was in accord.

Since it was not clear from the Ambassador's remarks whether he was being serious in his contention, that the Swan Islands were Honduran, I asked him if there was any intention on the part of his Government to raise the question again. He replied that this was the case; that a protest was contemplated on the basis that the Department of Agriculture had recently established an agricultural station there.<sup>2</sup>

<sup>1</sup> *Foreign Relations*, 1940, vol. v, p. 927.

<sup>2</sup> For H.J. Res. 364, Public Law 522, July 24, 1946 providing for the establishment of an international animal quarantine station on Swan Island, see 60 Stat. (1) 633. For documentation on the joint United States-Mexican campaign against foot-and-mouth disease in Mexico, see *Foreign Relations*, 1947, vol. viii, pp. 811 ff.

The Ambassador said that in looking over the files on the case, he had reviewed the Monroe Document [*Doctrine*] and various statements made by President Monroe, one of them to the effect that the Western Hemisphere was entirely settled, and that consequently it must be deduced that the Swan Islands belonged to Honduras at that time. I told him that I was not entirely familiar with the alleged assertion of President Monroe, but it was obvious that Monroe's statement was contrary to fact.

The Ambassador was informed that we would naturally be interested in any comment that his Government had to make, but there seemed to be little reason to suppose that there would be any change in our own position in the matter.

R[OBERT] N[EWBEGIN]

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811.0141 SW/12-2848

*Memorandum of Conversation, by Mr. Juan de Zengotita of the  
Division of Central America and Panama Affairs*

[WASHINGTON,] December 28, 1948.

Subject: Honduran Claim to Swan Islands

Participants: Señor Dr. Don Julián R. Cáceres, Ambassador of  
Honduras

Mr. Juan de Zengotita, CPA

The Ambassador called today at 12:30 and in Mr. Reid's <sup>1</sup> absence I received him. He presented a 54-page note <sup>2</sup> replying to ours of August 12, 1940 (41 pages) <sup>3</sup>; both are on the subject of the sovereignty of the Swan Islands. The Ambassador explained that before leaving office President Carias <sup>4</sup> wished once more to present Honduras' case to us. The implication was that the President did not want it said that he had neglected his country's interests. The Ambassador requested that we acknowledge receipt of the note before the end of the month, the President leaving office on December 31.

The Ambassador and I talked at some length on the subject, but we covered nothing substantive that is not already in the two notes under reference. I may remark that the Ambassador seemed to give great weight to the fact that he had found some antique authority who prescribed that discovery gave the right of ownership. (We had stated that not only modern authorities but even Grotius and Charles the I

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<sup>1</sup> Gordon S. Reid, country specialist, Division of Central America and Panama Affairs.

<sup>2</sup> Not printed.

<sup>3</sup> *Foreign Relations*, 1940, vol. v, p. 927.

<sup>4</sup> Tiburcio Carias Andino, President of Honduras.

of Spain acknowledged that more than discovery is necessary to ownership.)

The Ambassador apologized for a certain amount of repetition in the note. He explained that half of it had been drafted in Honduras and half by him and because he wanted to get the note in to us quickly he had not had the time to eliminate repetitions.

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811.0141 SW/2-1149

*Memorandum by Mr. Gordon S. Reid of the Division of Central America and Panama Affairs*<sup>1</sup>

[WASHINGTON,] February 11, 1949.

The Embassy of Honduras on December 16 presented a note reaffirming its sovereignty over the Swan Islands. The note is 54 pages long, and I will make no attempt to cover all of the points but rather shall present a bare outline.

First of all, the Hondurans set forth, as they have in the past, that Honduras as the heir of certain property of Spain and the Federation of Central America inherited the Swan Islands. To substantiate that statement they quote various geographers and in fact give a summary of Columbus' fourth voyage. They next take issue with the various statements made by this Department that an American discovered the Islands and point out that Columbus or one of his men must have been the discoverers though there is no actual proof advanced.

Secondly, the Embassy points out that in the Department's note of August 12, 1940 it was stated that there was no evidence that Spain had ever taken possession of the Islands; and they state that while it is true that no Islands known as the Swans were possessed, two Islands under other names but in the exact geographic position were possessed by Spain. (The note also gives the interesting information that the English name for the Islands came from an English sea captain named Swans, a pirate who had at one time dominated the Caribbean.)

Thirdly, the Embassy attempts to refute the Department's note of 1940 on the question of whether old maps and charts have a bearing on sovereignty. In this connection, they cite a statement made by former Secretary of State, Mr. Upshur,<sup>2</sup> which may prove to be embarrassing to the Department.

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<sup>1</sup> Addressed to the Director (Daniels) and the Deputy Director (Woodward), Office of American Republic Affairs, and to the Chief, Division of Central America and Panama Affairs (Barber); a copy, also, to the Ambassador in Honduras (Bursley).

<sup>2</sup> Abel Parker Upshur, Secretary of State, 1843-1844.



Fourthly, it asserts that the Islands belonged to the Province of Honduras during the colonial period, and, therefore, their rights are inherent and that in no time in their history have they offered to give up dominion or sovereignty over the Islands and there are pages and pages of quotes from various Spanish historians and geographers upholding the theory of hydrographic contiguity which I found to be one of the most fascinating theories yet advanced. It is based on the idea that Islands adjacent to the northern coast of Honduras, whether discovered or not, are necessarily contiguous to the mainland and, therefore, Honduran territory. A review is made of the Mosquito Islands and the fact that the British were finally forced to give up those Islands, but they point out that the British had never claimed the Swans and that neither had the United States implied that the Swans were anything but Honduran territory in negotiating the Clayton-Bulwer Treaty.<sup>3</sup>

Fifthly, the Honduran note spends approximately 12 pages attempting to refute the precedents cited by the United States Government in its note of 1940. This is so detailed that I am making no attempt to report it or to brief it.

Finally, the Honduran note sets forth the fact that on July 24, 1946 the United States Government issued and published an authorization for the United States Secretary of Agriculture to establish and maintain an international quarantine station for livestock on the Swan Islands. The Government of Honduras thereupon formally protested this action on the ground that it is "wholly contrary to the rights of dominion and possession of Honduras over the Swan Islands". The note ends with the request and the hope that this Government will find itself in a position to dispel all doubts as regards the Honduran titles of sovereignty, dominion and legal possession in the repeatedly mentioned Swan Islands.<sup>4</sup>

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<sup>3</sup> For convention between the United States and Great Britain as to the ship-canal connecting the Atlantic and Pacific oceans, concluded at Washington, April 19, 1850, see Malloy, *Treaties, Conventions, etc.*, vol. I, p. 659.

<sup>4</sup> Marginal note by the Chief, Division of Central America and Panama Affairs (Barber) : "LE is working on the answer. W. F. B."

## MEXICO

### DISCUSSIONS CONCERNING UNITED STATES PARTICIPATION IN DEVELOPMENT OF MEXICO'S OIL RESOURCES<sup>1</sup>

812.6363/4-1648

*The Ambassador in Mexico (Thurston) to the Secretary of State*

SECRET

MEXICO, D. F., April 16, 1948.

No. 671

SIR: As was stated by the writer of this despatch in a memorandum submitted to officers of the Department last February,<sup>2</sup> the objective of the instructions under which the Embassy had held informal discussions with the Mexican authorities was to bring about the formulation of an oil program under which foreign oil companies would be permitted to operate in Mexico on a competitive and non-discriminatory basis. That objective was attained, in principle, when the Mexican Minister for Foreign Affairs handed to the American Ambassador a document describing the "Bases" upon which foreign oil companies might negotiate contracts enabling them to operate in Mexico.<sup>3</sup> The present communication may be regarded as a progress report.

#### 1) *Attitude of the Mexican Government.*

Although the Director General of Petroleos Mexicanos, Senator Antonio J. Bermúdez, appears to be operating upon an eclectic basis, inasmuch as he has revealed an unwillingness to deal with certain representatives of American oil companies while freely negotiating with others, there has been nothing to indicate that the Mexican Government will not carry through the commitment implicit in its action in handing to the American Ambassador the document referred to in the introductory paragraph of this report. There appears to be no reason to doubt that the Mexican Government has opened the door to foreign capital and enterprise for the development of the nation's petroleum resources under certain restrictions and controls.

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<sup>1</sup> For previous documentation on United States policy regarding participation of foreign oil companies in the Mexican oil industry, see *Foreign Relations*, 1947, vol. VIII, pp. 787 ff.

<sup>2</sup> Not printed.

<sup>3</sup> Ambassador Thurston reported in despatch 248, February 9, not printed, that the Minister for Foreign Affairs (Torres Bodet) had that morning handed to him copies of a document entitled "Bases for a Draft Contract" setting forth the terms under which a contract could be entered into by Petróleos Mexicanos and a private oil company, either Mexican or foreign, and that the Minister had repeated that this action was not to be construed as constituting official negotiations between the Governments of the United States and of Mexico (812.6363/2-948).

[Here follows a series of statements on the attitudes of eighteen American Companies on the possibility of obtaining contractual arrangements with Petroleos Mexicanos.]

5) *Provisional Conclusions.*

From the foregoing, and from other observations not dealt with herein, it appears safe to conclude that the Government will continue with its new policy of permitting, under adequate safeguards, the participation of foreign capital in the development of Mexico's oil resources; that certain American oil companies are interested in operating in Mexico on the "basis" proffered by the Mexican Government; and that public opinion and Labor are disposed to view these developments with a degree of complacency which probably would be disturbed only were the arrangements with the American companies to be demonstrably in violation of the laws of Mexico, the national interests, or the interests of Mexican Labor.

It is also to be concluded that a clear pattern is being developed by Petroleos Mexicanos, in that the effort is being made, and apparently will continue to be made, to rest American participation in the development of Mexico's oil resources upon a basis of financial cooperation rather than upon operating arrangements. That is, the Mexican Government will endeavor in the first instance, as it has done with Cities Service and appears to be doing with The Texas Company, to obtain funds and material for development work by Pemex itself, with the American company providing the funds benefiting in the form of petroleum deliveries. It is likely, however, that not many American companies will be disposed to follow the example set by the two Companies just named, and that in future arrangements Pemex will be obliged to grant American or other foreign companies genuine operating contracts. This latter supposition would be invalidated were Pemex to achieve substantial new production through its own efforts—a contingency regarded by some observers as remote, but one which nonetheless should not be disregarded.

Respectfully yours,

WALTER THURSTON

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812.6363/6-348

*The Secretary of State to Senator Kenneth S. Wherry*<sup>1</sup>

WASHINGTON, June 14, 1948.

MY DEAR SENATOR WHERRY: I have received your letter of June 3, 1948<sup>2</sup> requesting a statement of the position of the Department of

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<sup>1</sup> Chairman, Special Committee to Study Problems of American Small Business, United States Senate.

<sup>2</sup> Not printed.



State with respect to Mexican petroleum development. The Department's position on the specific points presented in your letter may be summarized as follows:

1. The Department of State is keenly aware of the desirability of encouraging the development of petroleum resources not only in Mexico but also in the Western Hemisphere generally, in the interest of improving the economic development and defense potentialities of the entire area. The Department is favorably disposed toward the objective of the plan recently announced by the Mexican Government agency, *Petroleos Mexicanos* (PEMEX), for development of Mexican petroleum resources as rapidly as possible. The Department believes that achievement of this objective will depend upon the establishment and maintenance of conditions under which United States petroleum companies participate in the oil industry of Mexico on a basis mutually satisfactory to the companies and to the Mexican Government.

2. The Department of State is familiar with the type of drilling contracts which PEMEX is offering to American companies wishing to participate in the exploration and development of petroleum resources in Mexico.

3. As indicated above, the Department favors the participation of American companies in the Mexican petroleum industry. The basis for such participation, however, is a matter to be worked out to the mutual satisfaction of the companies and the Mexican Government. The Department is interested in promoting the development of such arrangements but understands that the United States petroleum industry generally feels that the PEMEX contracts do not provide sufficient incentive to United States companies in view of the uncertainty of oil exploration and development operations.

4. Oil well supplies, particularly tubular goods, are in short supply and their export is subject to control by the Office of International Trade in the Department of Commerce. In view of the world shortage of both oil industry equipment and petroleum, the Department feels that in general the supplies of oil industry equipment available for export should be channeled to those destinations offering the greatest potential addition to world petroleum supplies per unit of new equipment. Other considerations must be taken into account, of course, including the availability of such new oil supplies to the more important consuming markets and particularly to the United States in the event of an emergency. Mexico's proximity to the United States would be an added factor favoring the shipment of available oil industry equipment to that country for promising petroleum developments.

5. It is believed that the petroleum delivered by PEMEX to American companies under drilling contracts would be crude oil, but regardless of the nature of the products the Department would not object

to the issuance of letters of intent by the Armed Forces or by other Government agencies for the purchase of such products if this would serve to stimulate the development program in Mexico.

If the Department can be of further assistance to your Committee in this matter, do not hesitate to let me know.

Sincerely yours,

For the Secretary of State:

CHARLES E. BOHLEN

*Counselor*

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812.6363/8-548 : Telegram

*The Secretary of State to the Ambassador in Mexico (Thurston)*

CONFIDENTIAL

WASHINGTON, August 12, 1948.

798. Dept officers will inform Wolverton Committee members tomorrow on confidential basis present Dept policy of no US public loans to Pemex for purpose financing petroleum exploration or development. No reference will be made to Presidential Directive<sup>1</sup> as such, therefore unnecessary you discuss Directive or initiate discussion of policy with Committee.

MARSHALL

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<sup>1</sup> The White House policy against U.S. Government loans for commercial development of the Mexican petroleum industry was established by President Roosevelt on December 19, 1944 and reaffirmed by President Truman on October 13, 1945; see *Foreign Relations*, 1944, vol. VII, p. 1358, and 1945, vol. IX, p. 1161, footnote 70.

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812.6363/8-2448

*The Ambassador in Mexico (Thurston) to the Secretary of State*

SECRET

MEXICO, D.F., August 24, 1948.

No. 1403

SIR: On June 24 last, Senator Antonio J. Bermúdez, Director General of Petróleos Mexicanos, the Mexican state petroleum trust, spontaneously addressed a letter to me in which he transcribed the following text of an invitation he had sent on June 18 to the Honorable Charles A. Wolverton in his capacity as ranking member and Chairman of the Interstate and Foreign Commerce Committee of the United States House of Representatives: "Petróleos Mexicanos would consider it a great honor if you and the honorable members of your Committee would visit Mexico as our guests in order to see our oil fields and make a survey of our oil resources and industry, and thus realize the necessity of quick development. Believe your visit would greatly strengthen your ideas regarding economic ties between our two coun-

tries. Your visit would make clear to you needed action. You are most welcome. Kindly let me know your decision."

Senator Bermúdez likewise transcribed in the letter just cited the text of the reply he received on June 24 from Mr. Wolverton, in the following terms: "This is to acknowledge your very kind invitation for the Committee on Interstate and Foreign Commerce to visit Mexico for study and survey of petroleum fields and related economy. The Committee accepts with pleasure your invitation and will advise with respect to a definite date, which will probably be on or about July 26."

. . . . .

In so far as I have been able to ascertain, the invitation was extended because of Senator Bermúdez' awareness of the important part played by this Committee in the study of petroleum as a domestic and international problem and because of the attitude of the Committee toward the matter reflected in its activities and in public statements of its members.

The visit of the Committee was postponed from the date tentatively set by Mr. Wolverton in his reply to Senator Bermúdez because of the holding of the recent Special Session of our Congress, and the Committee did not arrive in Mexico City until August 18. Elaborate preparations had been made for the visit by *Petróleos Mexicanos*, whose fourteen-day program of study and entertainment includes visits to the southern, central, and northern oil areas, a special session by the Mexican Congress, several official receptions, and a conference with President Alemán. The Committee itself includes fifteen members of the Interstate and Foreign Commerce Committee as well as three members of the Committee staff, a Lieutenant Colonel representing the Department of National Defense, and an officer of the Department of State. It was brought to Mexico in United States Army airplanes.

Upon the arrival of the Committee, most of its members were taken at once on a tour of the oil areas while a smaller group remained behind, principally for the purpose of conferring with me and members of my staff. A meeting of several hours duration took place August nineteenth in my office, at which the principal officers of the Embassy were present and in the course of which I recited major developments in the history of Mexico's oil industry from its commercial inception to date, pointing out in particular that under instructions from our Government my predecessor had for some time carried on informal conversations with the highest Mexican authorities, looking to an arrangement whereby foreign petroleum companies might again participate in the development of Mexico's oil resources; that immediately following the inauguration of President Alemán I had



resumed these conversations; that in the course of all representations made to the Mexican authorities, we had made it abundantly clear that the United States Government has never entertained any desire to interfere in any way with the freedom of the Mexican Government to determine its own oil policy, and has always been fully cognizant of the sovereign rights of Mexico in this respect; that any arrangements which the Mexican Government might wish to enter into with American and foreign companies must hold some reasonable prospect of being attractive to them; that our belief was that not only considerations of hemisphere defense, which rests primarily upon the United States of America, but those of Mexico's internal economic development and the general peacetime needs of the world call for the development of this country's petroleum resources; that developments in this field in Mexico were being observed by several other American republics possessing developed and undeveloped petroleum resources, whose decisions with respect to nationalistic policies or free enterprise, whereunder American and foreign capital might be utilized, would be affected by the solution found for Mexico's pressing problem; and lastly, that our approach to our conversations with Mexico had been based upon the belief that where private capital and enterprise stood ready to enter the field, the public funds of the United States should not be employed.

Upon the return of the principal part of the Committee, headed by Mr. Wolverton, a further extended meeting was held in my office at which time I went over the same ground, more fully and more frankly. In answer to the question what in my opinion was the reason for the invitation extended to the Committee to come to Mexico, I replied that I felt quite certain that it was in order that the Committee might perceive the magnitude of the problem confronting Pemex and Mexico and be won over to the Mexican point of view that the development of Mexico's oil resources should be carried out through Pemex, and that the United States should facilitate the execution of this undertaking by making available or causing to be made available the material and probably the funds required.

In order that the members of the Committee might have the benefit of as wide a range of opinion on all subjects connected with their mission as was possible, I arranged for interviews by the Committee members with representatives in this city of American oil companies and with several of the principal Americans engaged in other activities here. I felt that the Committee should be given the benefit of the information and experience of these representative Americans so that it might be weighed together with the intense propaganda being directed toward the Committee by Pemex, and with the data and opin-

ions furnished by the Embassy. Further developments will be reported in subsequent despatches.

Respectfully yours,

WALTER THURSTON

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812.6363/9-248

*The Ambassador in Mexico (Thurston) to the Secretary of State*

SECRET

MEXICO, D. F., September 2, 1948.

No. 1469

SIR: The Wolverton Committee left Mexico City this morning by air on its return trip to the United States. Yesterday it attended the opening of the Mexican Congress, and was received last evening by President Alemán in a private interview at which no member of this Embassy was present.

Yesterday also the Committee came to the Embassy at my urgent request. I stated to Mr. Wolverton on this occasion that whereas customarily Congressional committees went abroad on missions of their own devising and on which they were free agents with whom the representatives of the Foreign Service could maintain close contact, the circumstances of the Committee's visit to Mexico were somewhat different, since its members had come here as the guests of Pemex and had been somewhat closed off from that association with the Embassy which I believed would have been mutually beneficial. Consequently, I stated, I would be grateful if the Committee would be so good as to inform me of the developments that had presumably taken place during its visit. In reply, Mr. Wolverton very kindly outlined the activities of the Committee since its arrival, as already known to and reported by the Embassy in earlier despatches, and then requested my opinion with respect to the feasibility of a plan whereunder United States credits would be extended to Pemex on condition that American private petroleum interests be permitted to operate in Mexico. I stated that such a plan might be feasible but that I would like very much to know what proposal along those lines had been made to the Committee by Senator Bermúdez. During the two hours of our meeting, I was not given a clear answer to this question, although I and members of my staff endeavored several times to ascertain the nature of the Mexican proposals. A memorandum describing this meeting is attached hereto.<sup>1</sup>

I escorted Mr. Wolverton to the airport this morning and learned from him at that time that a press release regarding the visit had been prepared last night and has been delivered to the press for publication

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<sup>1</sup> Not printed.

tonight.<sup>2</sup> I was permitted to read this release at the airport but was not given a copy of it. My hasty reading of the document indicated that it is probably innocuous.

In view of the unwillingness of the Committee to inform the Embassy of the precise nature of the proposal made to it by Pemex and of the data supporting that proposal which it is known with some degree of certainty was also submitted to the Committee, I requested Senator Bermúdez, whom I brought back from the airfield in my car, to furnish me this data. He stated that he would gladly do so and that a set of the necessary documents would be typed up and delivered to me within the next ten days. Upon its receipt, it will be forwarded to the Department, together with the Embassy's comment.

Respectfully yours,

WALTER THURSTON

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<sup>2</sup> Not printed.

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812.6363/11-2648

*Memorandum of Conversation, by the Chief of the Petroleum Division (Eakens)*

CONFIDENTIAL

[WASHINGTON,] November 26, 1948.

Subject: Proposals made to the House Committee on Interstate and Foreign Commerce by Petroleos Mexicanos during the Committee's visit to Mexico, August 17-September 3, 1948.

Participants: Mr. Andrew Stevenson } Members of professional staff  
 Mr. A. E. Stockberger } of House Committee on Interstate and Foreign Commerce.

Mr. Eakens—PED

During the time the Committee was in Mexico, Senator Bermudez, Director General of Pemex, made certain proposals to the Committee concerning aid desired from the United States. These proposals were not made either in my presence or in that of any of our Embassy officials, and since the return of the Committee the Chairman has not been willing to inform the Department concerning them.

A few days ago I told Mr. Stevenson that we were giving consideration to the Mexican petroleum problem and that it seemed desirable that we know Senator Bermudez' views regarding the aid he would like to have from the United States. Mr. Stevenson said that he would take this question up with Chairman Wolverton. A short time afterward he telephoned to say that Mr. Wolverton did not feel that he would be in a position to discuss the Mexican proposals with the Department until his return from the Committee's trip to Venezuela. Mr.



Stevenson said, however, that we might meet anyway before he left for Venezuela and informally exchange views regarding Mexican oil. This was the general frame of reference of our meeting.

By implication Mr. Stevenson disclosed what we had previously suspected, that Pemex was interested in obtaining a large loan from the United States for *Petroleos Mexicanos*. According to Mr. Stevenson, Senator Bermudez did not expect any loan to be made without reservations and requirements on the part of the United States, nor would he want such a loan in order that Pemex would continue to conduct all petroleum exploration and development operations in Mexico. Mr. Stevenson said that Senator Bermudez recognizes that Pemex needs the assistance of the private oil companies in the development of additional oil production. Mr. Stevenson stated that Pemex now seems to be very close to signing one or more contracts with American companies for oil development in Mexico. [Information available to the Department at this time does not substantiate that this is a fact.]<sup>1</sup>

Mr. Stevenson emphasized in the discussion his view that the important thing to do now in regard to Mexico is to get a large-scale exploration program started. With this I agreed. I asked him, however, whether he considered that provision could be made for such an exploration program without providing for the problems that would arise in connection with oil production when and if new fields were discovered. He said that his thinking had not gone that far and that he did not know whether the exploration phase of the problem could satisfactorily be separated from the questions connected with production. I expressed the view that, since in the last analysis it is the production that is important to us, any action taken would need to cover this phase of the problem.

We talked about the need for full and frank discussions with Bermudez concerning the possible area of cooperation between the United States and Mexico. From the discussion it appeared that the Committee does not consider that it has had sufficient discussions along this line for the purposes of its report. Mr. Stevenson said that there may be an opportunity for such discussions when the Committee stops in Mexico on its return from Venezuela.

At one point Mr. Stevenson expressed the opinion that the Committee has gone about far enough with the Mexican oil problem and that the problem ought now to be turned over to the Executive Branch of the Government for action.

Upon the return of Chairman Wolverton and members of the Committee and the Committee staff from Venezuela, and from their stop-

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<sup>1</sup> Brackets appear in the source text.

over on the return trip at Mexico City for further discussions with Pemex, it should be possible to have a more satisfactory meeting with the Committee on this problem.

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812.6363/12-848

*Memorandum of Conversation, by the Chief of the Petroleum  
Division (Eakens)*

CONFIDENTIAL

[WASHINGTON,] December 8, 1948.

Participants: Mr. Mark E. Andrews, Assistant Secretary of the  
Navy  
Commander R. H. Northwood, Aide to Mr. Andrews  
Mr. Nitze—E <sup>1</sup>  
Mr. Brown—ITP <sup>2</sup>  
Mr. Reveley—MA <sup>3</sup>  
Mr. Eakens—PED

This meeting was arranged at the instance of Mr. Andrews who wished to discuss further with the Department the Mexican petroleum situation. Mr. Andrews was asked by Mr. Forrestal <sup>4</sup> in September to ascertain what had developed with respect to Mexican oil since the meeting at the National Security Resources Board on February 17, 1948, at which Ambassador Thurston reported on discussions he had had with Senator Bermudez, Director General of Petroleos Mexicanos (Pemex), and other Mexican officials regarding the re-entry of the private oil companies into Mexico. Mr. Andrews talked with Mr. Eakens about this problem on October 5 and thereafter he discussed the problem with officials of The Texas Company, Standard Oil Company (New Jersey) and Gulf.

According to Mr. Andrews, Jersey was not so much concerned about the terms of a contract with Pemex as with the petroleum laws that would be applicable to such a contract. Jersey stated that the petroleum laws in force were enacted for the specific purpose of excluding foreigners from petroleum operations in Mexico and that the company would not be interested in any contract until the necessary amendments were made in the petroleum laws. Gulf, on the other hand, emphasized the question of division of the production or return between the company and the Mexican Government. Gulf wishes to go into Mexico only on the basis of paying a specific royalty and having the remainder of the oil accrue to the company. Gulf does not wish to

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<sup>1</sup> Paul H. Nitze, Deputy to Assistant Secretary for Economic Affairs (Thorp).

<sup>2</sup> Winthrop G. Brown, Director, Office of International Trade Policy.

<sup>3</sup> Paul J. Reveley, Chief, Division of Mexican Affairs.

<sup>4</sup> James Forrestal, Secretary of Defense.

become involved in an arrangement under which profits are split with the Mexican Government as this would involve the complicated questions of costs, profits, etc. The Texas Company had hoped that the \$30,000,000 loan, which the company had negotiated with Mexico but which was never finally agreed to by Pemex, would lead to production operation contracts. Although the loan arrangement was not consummated, The Texas Company made a proposal to Pemex regarding an exploration and production contract, which was also rejected. The Texas Company is therefore of the opinion that the bases which Pemex developed for contracts with American companies were consciously written so as to be unacceptable to the companies. If the private companies did not accept the contract Bermudez could then say that he had tried to reach agreements with the private companies and, having failed, there was no alternative but to seek a loan from the United States Government. The Texas Company believes that the presidential ambitions of Senator Bermudez probably has been an important factor in his approach to the problem. All of these companies considered a Government loan to Pemex undesirable and Mr. Andrews stated that he was of the same opinion. These views of the companies are based upon Mr. Andrews' discussions with Mr. Suman of Jersey, Messrs. Rogers and Ogarrio of Texas, and Mr. Belt of Gulf.

Department representatives brought into the discussion the negotiations which Gordon Duke, of Southeastern de Mexico, now has in progress with Senator Bermudez. Mr. Duke has transmitted to Senator Bermudez a three-point program for cooperation between Mexico and the United States with regard to development of Mexican oil. Mr. Duke has proposed that (1) the United States Government make a loan to Pemex for use in construction of pipe lines, refineries and distribution facilities, (2) Mexico amend its laws and make it possible for American companies to engage in oil exploration and development operations, and (3) the United States Government finance the drilling of oil wells by American companies for Pemex in proven locations on a cost plus basis. Mr. Duke considers that small companies such as his will not be able to contract for the development of large areas but could enter Mexico on a drilling contract basis as envisioned by point (3) of his program. In transmitting his program to Senator Bermudez, Mr. Duke stated that he had discussed it with a number of oil companies and Government officials in Washington.

The interest of the Wolverton Committee in the Mexican oil problem was discussed at some length. It was pointed out that prior to the acceptance by the Wolverton Committee of Pemex' invitation to visit Mexico, Senator Bermudez had been conducting negotiations with the private oil companies and that the acceptance of the Wolverton Com-



mittee apparently brought such negotiations to a standstill. Since that time little if any progress seems to have been made by the private oil companies in their negotiations for oil exploration and development contracts. Until the results of the Wolverton Committee's trip are known it seems doubtful that any progress will be made in regard to such contracts since the Committee's visit undoubtedly led to high hopes on the part of Senator Bermudez and other Mexican officials that Pemex might be successful in obtaining a Government loan of substantial size. Pemex apparently desires a loan of some \$475,000,000 for oil purposes. It was mentioned that Mr. Wolverton and one or two other members of the Committee and two members of the Committee's professional staff are now on a trip in the Caribbean and will shortly visit Mexico for further petroleum discussions with Senator Bermudez. It was also mentioned that Mr. Wolverton has called a meeting of the Committee for December 29 to decide what action is to be taken on the Committee's Mexican oil report. Some question seems to exist at this time (1) as to whether a report will be made and (2) if a report is made whether it will include any recommendations as to what should be done with respect to Mexican oil. It was generally agreed that the most desirable action that the Committee could take would be to recommend that no loan be granted to Pemex, that the second best would be for the Committee not to make a report and, third, that if the Committee makes a report the report be purely factual and not include any recommendations. The possibility that something desirable might be accomplished in regard to the Committee's report through discussions by Mr. Andrews with Congressman Heselton was discussed, and Mr. Andrews said that he would consider taking the matter up with Congressman Heselton. The Navy seems to be in a favorable position for doing this in view of its assistance to Mr. Heselton's district last winter in making loans of heating oil available for his constituents.

Another factor complicating the involvement of the Wolverton Committee in the Mexican oil problem is the change in chairmanship that takes place in the new Congress. The new chairman of the Committee will be Congressman Robert Crosser (D., Ohio). Mr. Crosser visited Mexico with the Committee in August and September, but he does not seem to consider a loan to Mexico for oil necessary. He thinks that Mexico should be willing to make and the private companies to accept a fair basis for oil development operations. Having certain views regarding the validity of the single tax, Mr. Crosser considers that a fair basis for such operations would be one under which the economic rent of lands utilized in oil operations would accrue to the Mexican Government. The foregoing was brought out in a meeting Mr. Eakens had with Mr. Crosser on Tuesday, Decem-

ber 7. As the application of Mr. Crosser's ideas to the problem appeared to him to be extremely involved if not unworkable, Mr. Eakens suggested that the most practicable way for the Mexican Government to secure the maximum return from any particular tract of land would be by competitive bidding. Mr. Crosser has been invited by Pemex to visit Mexico again and it is likely that he will accept. If he does accept, his visit will overlap the last two or three days of the visit of the Wolverton group but will extend on beyond.

Regarding the extent of a program required to develop a significant amount of production, Mr. Andrews expressed as his view that the efforts of ten to fifteen companies would be required and an expenditure by each of some \$20,000,000 in a five-year exploration program. The total expenditure required is therefore \$200,000,000 to \$300,000,000 in the exploration phase. In the following five years, he stated that another \$200,000,000 expenditure would be required to develop the fields discovered. He thinks that such a \$400,000,000 to \$500,000,000 program by ten to fifteen companies in a ten-year period should discover a billion barrels of oil. As Mexico's presently proved reserves are approximately the same figure, such a program, if it worked out as Mr. Andrews indicated, would double the reserves of Mexico and should make possible a doubling of the present production of approximately 160,000 barrels daily.

A factor of importance in considering the Mexican oil problem in relation to the security needs of the Western Hemisphere is that Mexico's possible contribution be kept in proper perspective. All agreed that any action being considered in respect to Mexico should be fully weighed as to the effect such action probably would have in Venezuela and other areas. The possible increase of 160,000 barrels daily production in Mexico compares with current production in Venezuela of 1,350,000 barrels, and a probable increase in this figure, based upon present development plans of the companies and assuming no new concessions are granted, by some 500,000 barrels daily over the next five years.

In response to a direct question by Mr. Nitze, Mr. Andrews stated that NME would not press the Department for any action in Mexico that might risk adverse repercussions on production in Venezuela. Such risk might be run by government loans or by our support of contracts for private companies substantially less favorable to them than those enjoyed by them in Venezuela.

Mr. Andrews was asked whether he would consider a loan for above-ground facilities objectionable if such a loan were made in connection with an agreement on the part of Mexico to open up its lands for development by private American companies. He said that he did not

think it would necessarily be objectionable. Mr. Nitze stated the Department's view at this time as being that (1) it has not been concluded that any loan is necessary because it is considered that Mexican oil resources can most efficiently and effectively be developed by private companies, (2) if a basis for private company operations in Mexico cannot be worked out without other concurrent arrangements, the Department might be willing to consider a loan for above-ground facilities tied in with an agreement on the part of Mexico to develop the production phase of the industry on a private company basis, (3) in no case should a loan be made to Pemex for exploration and wild-cattling operations, and (4) it is undesirable at this time for it to be known that the Department might be willing to consider a loan even for above-ground facilities. Mr. Andrews seemed to be in general agreement with this statement of the Department's position and he said that he would convey these views to Mr. Forrestal.

Two recent favorable developments with respect to oil were also mentioned. First, the new Venezuelan Government has indicated that it is favorable toward the granting of new oil concessions although none have been granted since 1945. Second, according to a *New York Times* report from Lima dated December 7, the new government in Peru considers the competitive development of the country's oil resources on a private enterprise basis desirable and is taking action to bring about such development.

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810.50 Rio de Janeiro/12-1048

*Remarks by the Economic Counselor of Embassy in Mexico (Bohan)*<sup>1</sup>

RIO DE JANEIRO, [December 10, 1948].

Subject: Petroleum Situation in Mexico

The Mexican petroleum question has been handled exclusively by Ambassador Thurston, the activities of his Economic Unit having been restricted to factual reporting on the industry and to the furnishing of such advice as the Ambassador requests. It is his considered opinion, in which all of his economic officers wholeheartedly share, that the policy of the Department of State in the petroleum field is sound and the only one which gives hope of obtaining oil in the strategic quantities needed by the United States. That policy, contained in a communication dated June 8, 1948 to Senator Wherry, states that the Department "is keenly aware of the desirability of encourag-

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<sup>1</sup> Remarks made at the Economic Conference of Foreign Service Officers and Departmental Officials held at Rio de Janeiro from November 1 through November 6, 1948; copy transmitted to the Department in despatch 2,028, December 10, 1948 from Mexico, not printed, 810.50 Rio de Janeiro/12-1048.



ing the development of petroleum resources not only in Mexico but also in the Western Hemisphere generally" and expresses the belief that the "achievement of this objective will depend upon the establishment and maintenance of conditions under which United States petroleum companies participate."

The clear-cut policy laid down by the Department has been vigorously and intelligently implemented by Ambassador Thurston. Before the public enunciation of that policy, the Ambassador had succeeded, through his negotiations with President Alemán, in obtaining a reversal of Mexican policy respecting foreign participation in the development of petroleum resources. Bases for discussion with foreign private interests were handed him in January 1948 and were later reviewed by a cross section of the American petroleum industry. While the consensus was that the contracts contemplated were of doubtful legality and the terms unacceptable, all parties felt that the bases were a starting point for direct conversations between private interests and the Mexican petroleum monopoly. Many of such conversations took place during succeeding months and for a time it appeared that something satisfactory might be worked out. However, Senator Bermúdez, head of Pemex, who early in 1947 had apparently been keenly desirous of bringing foreign capital into Mexico, had changed his attitude by the late spring of 1948, becoming more and more nationalistic and obstructionist. This change was almost certainly due to the awakening of political ambition. It is widely believed that Cárdenas<sup>2</sup> promised support to a Bermúdez for President drive in 1952 if the latter would remain firm on national development of petroleum resources. *El Popular*, the mouthpiece of Lombardo Toledano's Popular Party, has gone out of its way to praise the statesmanship of Bermúdez while this gentleman has never disassociated himself from the Communistic Congress of Petroleum Workers of Latin America which met in Tampico from September 22 through September 26. He gave the opening address at that convention, whose closing resolutions included one to the effect that "the petroleum of Mexico and of all the countries which attended the Congress, shall not serve to promote a new war and much less to be used during such a war," and another to appoint a committee to direct efforts for the nationalization of petroleum in the other countries of Latin America. Furthermore, in the Pemex publicity, a growing note of nationalism is noticeable. Thus, on October 16, *Petroleos Mexicanos* inserted full-page advertisements "to stimulate and promote the eminently nationalistic activities which it carries out" and ascribed criticism of its activities to three groups of people, disloyal interests in Mexico who would benefit by the failure of the

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<sup>2</sup> Lazaro Cárdenas, former Mexican President (1934-1940).

industry, people ignorant of the true state of affairs, and each person who has been turned down by *Petroleos Mexicanos* because it would not accept unfavorable and even ruinous contracts.

The recent visit of a sub-committee of the United States Congress gave rise to the hope in leftist circles that it would recommend the financing of a Pemex program involving between 400 and 500 million dollars and has thereby innocently contributed to the nationalistic attitude of all parties concerned. Also, the constant propaganda emanating from labor, leftist and certain industrial circles, appearing almost daily in the press, cannot but affect public opinion towards private initiative in general and foreign capital in particular. Such statements as the following are routine reading: "The North American consortiums are the principal cause of the misery of our peoples," "enterprises like the Southern Pacific Railroad and the Mexican Light and Power Company . . . should not continue being the source of fabulous profits and the machinations of foreigners," "the Havana Charter is a trap to force Mexico and the countries of Latin America into accepting the Clayton Plan," "imperialistic forces, traditional enemies of the progress and welfare of the people, are conspiring against our liberty."

In such an atmosphere, which our Government has done nothing effective to combat, is it any wonder that a problem which has its roots deep in mass prejudice and is a foundation stone of the Mexican Revolution, has not been settled? Nor will it be until we again realize that foreign relations with a country or a group of countries are not a series of unrelated and independent problems but one problem with many facets. The first and primary recommendation which we must make, whether it concerns petroleum or the trade agreement or the fisheries convention, is that the specialist approach be discarded and our relations with Mexico studied as a whole and a program of action laid out, designed to win back the ground we have lost in Mexico during the past twelve months. In the meantime, and it may be a very long meantime, the hope may be expressed that the report of the Sub-Committee on Interstate and Foreign Commerce of the House will blast the prevailing idea in Mexico that a government-to-government loan is in the offing unless such recommended assistance is clearly contingent on reasonable opportunities for private capital to engage in exploratory, development, production, and exportation activities in Mexico under conditions permitting assurances of a legal basis for operations, management control, and a fair return on venture capital. Credit assistance given in this manner should be restricted to financing improvement of the internal distribution and plant facilities of Pemex

and the proper development of existing fields. Also, study might well be given to the legal aspects of possible operations in Mexico and whether it would be necessary to seek modification of the present petroleum law (*not* the Constitution) or to conclude an agreement with Mexico which would guarantee the legitimate rights of our venture capital.

I want to emphasize that all of us and especially the Ambassador, realize the overriding strategic importance of developing the petroleum resources of the Western Hemisphere. Our opposition to any direct U.S. Government aid to Pemex results from our conviction that Pemex cannot be counted upon at best to do more than develop petroleum for Mexico's growing internal demands and to maintain or at most slightly increase present export volume, and what the United States needs is oil in vast quantities. Also, direct loans without the compensation described would place the seal of United States Government approval on expropriation of petroleum properties in other countries of the Western Hemisphere and make it impossible to get such countries as Brazil to take a more liberal view towards foreign participation. This result might well lead to a far greater loss in oil deliveries from other Latin countries than any gains obtained in Mexico.

The defeatists tell us that Mexico will not change and that we must either operate through Pemex or not at all. We do not believe this. The educational and agrarian problems were at one time considered just as difficult of solution as the petroleum question. Both have been the subject of constitutional amendment. In petroleum such extreme measures are not necessary and while the difficulties of working out a basis for the return of foreign private capital are admitted and realized, the intelligent handling of our foreign relations should be able to turn the trick.

The greatest danger to the strategic supply of petroleum in the defense program for the Western Hemisphere, including Mexico, is that a few more wells brought in by Pemex, by lucky chance, will satisfy the Mexican Government and the Mexican people and make them believe that such inadequate contributions to joint defense measures are sufficient.

In conclusion, I wish to express the hope that our Government will quickly get down to business on the whole question of our relations with Mexico and that our Ambassador, who has done a magnificent job in connection with petroleum, will be supported and backed in his endeavors to meet the grave strategic needs of our country.



**EXPORT-IMPORT BANK LOANS TO MEXICO FOR PURCHASE OF UNITED STATES EQUIPMENT, MATERIALS AND SERVICES FOR PUBLIC WORKS AND INDUSTRIALIZATION PROJECTS<sup>1</sup>***Editorial Note*

On February 11, 1948 the Board of Directors of the Export-Import Bank approved the application of Nacional Financiera on behalf of Guanos y Fertilizantes de Mexico, S.A. for a credit of \$6 million under the \$50 million commitment authorized to Mexico on April 30, 1947, to finance the construction of an ammonium sulfate plant (airgram 72, February 18 to the Embassy in Mexico, 811.516 Export-Import Bank/2-1848, not printed).

On September 15 the Board of Directors of the Eximbank approved a \$1.5 million credit to La Consolidada through Nacional Financiera on the guaranty of the Government of Mexico for the purpose of providing additional working capital (airgram 622, October 18 to the Embassy in Mexico, 811.516 Export-Import Bank/10-1848, not printed).

For documentation on amendments with respect to previous credit authorizations (1) Eximbank credit 427, November 21, 1947, \$5,000,000 to Nacional Financiera, S.A. to assist in financing the purchase of United States agricultural equipment, and (2) Eximbank credit 392, February 13, 1946, \$3,000,000 in favor of the Aeronautical Radio de Mexico, S.A. to finance the installation of equipment necessary to establish an integrated airway meteorological and communications system, see memoranda by the Associate Chief and the Acting Chief of the Division of Investment and Economic Development, June 2 and June 21, in Department of State file 812.51.

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 764-772.

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**UNITED STATES EFFORTS TO HELP THE MEXICAN GOVERNMENT TO STABILIZE THE PESO**

812.51/3-448

*The Ambassador in Mexico (Thurston) to the Secretary of State*

SECRET  
No. 434

MEXICO, D.F., March 4, 1948.

SIR: I have the honor to acknowledge receipt of the Department's secret telegram No. 188 of February 27, 1948,<sup>1</sup> stating that the Government of Mexico through the Mexican Ambassador in Washington had

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<sup>1</sup> Not printed.

presented a request for an additional ten million dollars under the stabilization agreement.<sup>2</sup>

Inasmuch as it is the purpose of the agreement to stabilize the value of the Mexican peso with respect to the United States dollar by arranging for the Secretary of the Treasury to purchase Mexican pesos whenever necessary to assist Mexico to meet temporary disequilibria in its balance of international payments, the Embassy has deemed it prudent to obtain from the Bank of Mexico its projected balance of international payments for 1948 and to subject it to detailed analysis. It is hoped that this analysis will assist the Treasury Department in determining whether or not the present disequilibrium is temporary or fundamental in character.

The Embassy has long feared that if the general public in Mexico were aware that all reserves available for commercial transactions were nearly exhausted, and that, in fact, there are not now sufficient reserves to meet legal requirements, an exchange panic might ensue which not even the entire immediate support of the United States-Mexican Stabilization Fund could stop. The Acting Director of the Bank of Mexico discounts these fears. He admits that through January and February there was a considerable flight of capital to the United States, and ascribes this to devaluation of the franc and ruble, lower prices in the United States and lastly, to rumors of devaluation or exchange control, or both, originating within the Bank of Mexico itself. The Embassy considers only the last-named to be valid.

The Acting Director confirmed the statement made in the Embassy's secret despatch No. 229 of February 4, 1948<sup>3</sup> that branches and subsidiaries of large American companies with large inventories were beginning to hedge against a possible devaluation of the peso by borrowing dollars locally—or alternatively, liquidating inventories as rapidly as possible and sending the proceeds to the United States in dollars. Indeed, the manager of a large American bank in Mexico City is rationing even his best client's dollar borrowings and does not permit them to exceed inventories. The Acting Director of the Bank of Mexico optimistically believes that the worst is over since, he alleges, the limiting factor is that private individuals do not have enough surplus pesos to convert to dollars, "that peso deposits have now been reduced to working capital". Sr. Gomez' optimism is so firm that he feels even without the \$10,000,000 USCy application now pending, the Bank of

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<sup>2</sup> For press statement by the Treasury Department on the United States-Mexican stabilization agreement executed on May 13, 1947, see the Department of State *Bulletin*, May 25, 1947, p. 1043.

<sup>3</sup> Not printed.

Mexico, principally through Eximbank receipts, will be able to meet its legal reserves and have a little left over.

The Embassy does not share this degree of optimism either with respect to the immediate future or for the remainder of 1948 as forecast in the Bank of Mexico's projection. Nevertheless, the decision whether or not to grant the application will be a hard one. If devaluation occurs through a failure to grant the application, the United States will be blamed, there will be adverse repercussions on the Bogotá Conference<sup>4</sup> and, worst of all, there will probably be grave internal unrest. While it may be advisable to conserve the resources of the United States-Mexico Stabilization Fund to support a rate of exchange more truly enabling Mexico to establish and maintain equilibrium in its balance of international payments, the Embassy believes that the considerations in favor of granting the application may be the more weighty.<sup>5</sup>

Respectfully yours,

For the Ambassador:  
LEW B. CLARK  
*Commercial Attaché*

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<sup>4</sup> For documentation on the Conference, see pp. 1 ff.

<sup>5</sup> In telegram 251, March 12, 1948, 1 p. m., not printed, the Secretary of State informed the Embassy in Mexico that on March 9 Mexico had obtained the third ten million dollars under the United States Treasury Stabilization Agreement (812.5151/3-1248).

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812.5151/6-1648

*The Ambassador in Mexico (Thurston) to the Secretary of State*

[Extracts]

SECRET

MEXICO, D.F., June 16, 1948.

No. 1038

SIR: I have the honor to refer to the Department's telegram No. 587 of June 9, 1948<sup>1</sup> and in compliance therewith to submit a report on Mexican financial developments in the four weeks ending June 18th, with particular attention to measures taken by the Bank of Mexico to strengthen the peso. The major points of these developments have already been sketched in the Embassy's telegrams numbers 633 of June 4 and 656 of June 12, respectively, and in the usual weekly financial telegrams.<sup>2</sup>

The crisis in the exchange position of the Bank of Mexico predicted in the Embassy's despatch No. 619 of April 2, 1948,<sup>1</sup> to occur during May-June 1948, was reached at the end of May. Net reserves declined

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<sup>1</sup> Not printed.

<sup>2</sup> None printed.



from minus \$2,876,855 on May 8th to minus \$3,213,432 on May 15th to minus \$7,850,113 on May 22, 1948. Although export and import statistics are not available for the period under review, it is believed certain that the chronic adverse balance of trade persisted, and was the chief factor responsible for the heavy loss of reserves.

On May 26, 1948 the Chase National Bank made a 60-day loan to *Nacional Financiera* in the amount of \$2,000,000 USCy with an interest rate of two and one-half percent. The note bears the unqualified endorsement of the Mexican Minister of Finance. According to the local representative of the Chase Bank, Sr. Rodrigo Gomez, Sub-Director of the Bank of Mexico, was in New York on May 15 and requested a loan of \$4,500,000 USCy from the Chase Bank. He stated that the Export-Import Bank would shortly make a disbursement of that amount to *Nacional Financiera*.

On May 27, 1948 the Chemical Trust Company made a similar loan of \$2,500,000 USCy. It is believed that the terms were identic with the Chase loan, although this has not been verified.

On May 28, 1948, under the Stabilization Agreement between the United States and Mexico signed May 13, 1947, \$7,000,000 USCy was credited to the Bank of Mexico and the peso equivalent was transferred to the New York Federal Reserve Bank as Fiscal Agent of the United States.

Following these developments, the net reserves of the Bank of Mexico stood at \$1,211,698 on May 29, but declined to minus \$1,731,095 on June 5 and amounted to minus \$434,687 on June 12, the latest date for which an *Estado Concentrado* is available.

The remainder of this despatch will refer to the measures taken, or alleged to be taken, by the Bank of Mexico in accordance with the technical recommendations of the Treasury Department attached to the minutes of the meeting in Secretary Snyder's office at 4:00 p. m., May 28, 1948, on the Mexican request to withdraw the remaining \$20,000,000 USCy in the United States-Mexican Stabilization Fund. These recommendations have been studied intensively in the Bank of Mexico and the Ministry of Finance. It is believed that they have been presented to the President, since Sr. Gomez stated that the Minister of Finance had personally made the translation for the President. Sr. Gomez' observations on the measures were made to First Secretary Harry R. Turkel on June 11, 1948.

The Embassy notes that the principal recommendations are to limit credit in order to reduce imports, and to increase government revenues or curtail government expenditures in order to produce a surplus. The Embassy is thoroughly in accord with these objectives but ventures to point out that the effectiveness of the first measure depends on degree

and timing, while the second measure is exceedingly difficult to implement at all. The writer believes that if all of the steps recommended by Sr. Gomez were to be put into effect immediately there may well be such a contraction of credit as to result in a waste of manpower and productive resources, particularly agricultural. On the other hand, it is hardly likely that Sr. Gomez will be able to achieve all of his objectives despite the secrecy with which he is proceeding. These objectives are bound to become known in Mexico and will probably be highly unpopular. Many segments of the Mexican economy are already complaining that the "Gomez policy" is "too tough". Complaints against the unavailability of bank credit have already been strongly voiced, particularly with respect to agricultural, commercial, industrial and construction credits.

[Here follow comments on limitation of credit, increasing government revenues or curtailing expenditures, detailed recommendations, and additional considerations.]

#### V. *Conclusions*

It is difficult at this point to evaluate the degree to which the recommendations to strengthen the peso will be put into effect, and still more difficult to evaluate the precise effect of each recommendation if actually put into force. The Embassy is frankly dubious as to the possibility of maintaining the present rate of exchange of the peso for an extended period without further recourse to the Stabilization Fund, or the International Monetary Fund. While the Embassy is thoroughly in accord with nearly all of the recommended measures, it feels that Mexico's long term difficulties cannot be solved through financial legerdemain but only through the time-proved principle: produce, save and invest.

Respectfully yours,

For the Ambassador:  
LEW B. CLARK  
*Commercial Attaché*

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812.5151/8-548

*The Ambassador in Mexico (Thurston) to the Secretary of State*

[Extracts]

SECRET

MEXICO, D. F., August 5, 1948.

No. 1308

SIR: I have the honor to refer to the Embassy's despatch No. 1038 of June 16, 1948, entitled "Mexican Financial Developments, May-June 1948", and to forward herewith an account of Mexican financial

developments during June and July 1948, with particular attention to the devaluation of the Mexican Peso which took place on July 22, 1948. This despatch is divided into four parts: (1) the events from June 1 to July 21, (2) the events of July 22, and (3) events subsequent to July 22, and (4) an analysis of the effects of devaluation on the balance of trade. The principal conclusion is that devaluation to a rate of 6.50 will cause a sharp reduction in imports but will not sufficiently stimulate exports to achieve an active balance of trade for the year 1948.

#### I. EVENTS FROM JUNE 1 TO JULY 21, 1948

It will be recalled that on May 31, 1948, the Bank of Mexico, according to its *Estado Concentrado*, had total reserves of 122.8 million dollars and a legal reserve of 122.5 million dollars, leaving a net reserve of only \$279,242.96. This was made possible through the purchase by the United States-Mexican Stabilization Fund of pesos in the amount of \$7,000,000 on May 28, 1948 and a loan of \$2,000,000 by the Chase National Bank on May 26\* and a loan of \$2,500,000 by the Chemical Trust Company on May 27. It is understood that assistance was given by the United States Treasury through the Stabilization Fund on the understanding that the Government of Mexico would undertake to limit credit with a view to reducing imports, attempt to achieve a budgetary surplus, and undertake certain other technical measures designed to correct the fundamental disequilibrium in the Mexican balance of international payments. This subject is treated at length in the Embassy's despatch above mentioned, but the Embassy now refers to the gold holdings as of May 31, 1948 in view of the subsequent importance of that item. On that day the Bank of Mexico had nearly 69,000 kilos of gold bars, valued at slightly more than \$77,000,000.

By June 26, gold holdings had dropped to \$70,000,000 and by July 3 to \$59,300,000. With the continuing drain of dollars, it was again necessary for the Bank of Mexico to sell gold, and by July 17 gold holdings were down to \$54,000,000 and according to the latest available *Estado*, that of July 24, gold holdings are 42.0 million dollars. Nearly half of the gold reserves of the Bank of Mexico had thus disappeared in the seven weeks preceding devaluation.

. . . The Embassy's best estimate of the amount of foreign exchange reserves lost between June 1 and July 22 is 21.5 million dollars. This figure is obtained by subtracting *total* reserves of 101.3 million dollars (*Estado* of July 24) from *total* reserves of 122.8 million dollars

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\*The Chase loan was repaid ten days prior to maturity, on July 16, 1948. Sr. Gomez has stated that the Chemical Trust loan was repaid, but the date is not known. [Footnote in the source text.]



(*Estado* of May 31). Nearly 8½ million dollars was lost in the week immediately preceding devaluation. It is obvious that the exchange rate could not withstand this rate of loss of reserves and that the Bank of Mexico could no longer continue to sell dollars freely, even though additional support from the United States Stabilization Fund and the International Monetary Fund might be forthcoming.

The period from June 1 to July 17 was marked by intense activity in private gold transactions. The buying rate on *centenarios*, for example, moved from 4.38 paper pesos per gold peso to 4.50 at the end of the period. Smaller gold coins, which were at 4.24 and 4.26 at the beginning of the period were also at 4.50 at the close. The intense demand had eliminated the traditional difference in quotation between large and small coins. There is enclosed herewith, listed as Enclosure 1,<sup>1</sup> a table of Mexican gold coin prices, in paper pesos, from June 1 to July 17, 1948.

Contraband export of gold and gold coins increased considerably during this period and several individuals were apprehended on the point of departure for Europe or the United States. The amounts involved, however, were small in relation to legal exports of gold by private individuals in the form of laminated gold. The export of gold bars and coins is forbidden by law, but industrial gold could be exported legally during this period upon the payment of the export tax. The amount so exported for May amounted to approximately 19,000,000 pesos. The exports of laminated gold from June 1 to July 17 are not known but must have been at least at an equivalent rate. It is interesting to note that it costs only 5 pesos to roll a bar of gold into laminated sheets.

The question naturally arises: why did the severe drain on the reserves of the Bank of Mexico occur when it did, and thus force devaluation? For months the Embassy has been reporting the nervousness of bankers, businessmen and others with respect to the future of the peso. The drain immediately preceding devaluation is believed to have been caused by a further decline in public confidence which reached down into the ranks of small businessmen. Only a detailed examination of the complete list of purchasers of dollars for a month preceding devaluation can prove the point, and the Embassy has no access to these lists. The "smart money" had already gone; the peso balances of business concerns were already down to working capital; but in the last few weeks, as one American banker put it: "Every Arab in town with 5,000 pesos wanted his \$1,000."

Sr. Rodrigo Gomez, Sub-Director of the Bank of Mexico, stated to an Embassy representative on July 24 in Mexico City that he made the

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<sup>1</sup> Not printed.

decision to unpeg the peso after he telephoned Finance Minister Beteta from Washington at about 5:00 p. m. on Wednesday, July 21, 1948. In that telephone conversation, Sr. Gomez asked the Finance Minister for assurances that the latter would balance the Federal budget and not call on the Bank of Mexico for assistance in the future. The Finance Minister refused to give that assurance, stating that he needed 200,000,000 pesos additional for the balance of 1948 and would need an additional 500,000,000 pesos annually thereafter. Sr. Gomez then felt that even though he might obtain \$85,000,000 USCy from the United States Stabilization Fund and the International Monetary Fund, he could no longer hold the 4.85 rate.

The Embassy representative inquired how the \$85,000,000 was made up. Sr. Gomez replied that it was \$13,000,000 under the present United States-Mexican stabilization agreement; \$22,500,000 from the International Monetary Fund; an additional \$50,000,000 from the United States Stabilization Fund. The Embassy representative made no comment whatsoever on this explanation of the anticipated support.

To sum up: the devaluation of the Mexican peso was basically caused by a fundamental disequilibrium in the Mexican balance of international payments and was precipitated by a flight of capital induced by a general lack of confidence in the peso. It was necessary and inevitable, and was not an act of free choice on the part of the Mexican Government.

. . . . .

## V. CONCLUSIONS

If the writer is correct in his assumption that an exchange rate of 6.50 will result in Mexican imports of 501.2 million dollars and exports of only 463.5 million dollars for 1948, it would seem advisable to select a rate higher than 6.50. Admitting that tourist receipts will expand owing to the devaluation, other invisible items are not so affected.

If the object of selecting a new rate is to place the Mexican Government in a position to meet payments on its floating and consolidated debts, *to meet its obligations to the U.S. Export-Import Bank, to repurchase \$37,000,000 in pesos from the U.S. Stabilization Fund*, as well as to rebuild the shattered reserves of the Bank of Mexico, it is recommended that a higher rate be chosen. This recommendation is made in the full knowledge that the higher the rate, the greater will be the rise of the price level in Mexico.

The Embassy does not recommend a specific rate. It is, however, pointed out that a rate of less than 6.50 exposes the United States Government and the International Monetary Fund to the risk of being called upon for funds to support that rate; it exposes the Mexican Government to the risk of being forced to a second devaluation. If the

amount of increase in the United States-Mexican Stabilization Fund is to be only of the order of 25 million dollars, it is an additional reason for selecting a rate higher than 6.50.

The time at which a new rate is established is also of great importance. An early stabilization of the peso is undoubtedly desirable for convenience of commerce and for political reasons as well. Nevertheless, an extension of the period during which the peso is not pegged will permit the free and fuller play of the forces of supply and demand, and may hence afford a more reliable indication of what might be a realistic rate. At the time this despatch is being written, the bankers' buying rate is just under 7.00, and the selling rate is at 7.00.<sup>1</sup>

Respectfully yours,

For the Ambassador:

MERWIN L. BOHAN

*Counselor for Economic Affairs*

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<sup>1</sup> A Supplemental Stabilization Agreement was executed by the United States Treasury Department with the Bank of Mexico and the Government of the United Mexican States on June 17, 1949. This agreement supplemented and modified the Stabilization Agreement of May 13, 1947. Copies of this agreement were sent to the Department by the Treasury Department in letter of June 27, 1949, not printed (812.5151/6-2749).

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## DISCUSSIONS OF THE PROBLEM OF LEND-LEASE OBLIGATIONS OF MEXICO TO THE UNITED STATES<sup>1</sup>

812.24/1-248

*The Ambassador in Mexico (Thurston) to the Secretary of State*

CONFIDENTIAL

MEXICO, D.F., January 2, 1948.

No. 6

SIR: I inquired of the Minister for Foreign Affairs<sup>2</sup> today whether it would soon be convenient for him and his colleagues in the Government to undertake formal discussions with me looking to modification of the terms of the Lend-Lease Agreement of March 18, 1943.<sup>3</sup> Señor Torres Bodet replied that a preliminary study of the draft documents I had left with him on December 17 (despatch 5225 of December 18, 1947<sup>4</sup>) had produced the impression that they could not serve as the basis for formal negotiation. He added that Señor Vicente Sánchez Gavito<sup>5</sup> was being entrusted in so far as the Foreign Office is concerned, with the study of this matter and that Señor Sánchez Gavito,

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<sup>1</sup> Continued from *Foreign Relations*, 1947, vol. VIII, pp. 746-751. For the lend-lease settlement arrangement signed with the Government of Brazil on April 15, 1948, see pp. 383 ff.

<sup>2</sup> Jaime Torres Bodet.

<sup>3</sup> *Foreign Relations*, 1943, vol. VI, p. 397.

<sup>4</sup> *Ibid.*, 1947, vol. VIII, p. 750.

<sup>5</sup> Director General of the Diplomatic Service.



when sufficiently prepared, would call on me and present a Mexican proposal containing suggested terms of settlement.

Señor Torres Bodet then stated that he could outline to me in very general terms the present thinking of his Government on this subject. He said that in the first place he desired again to repeat that the Mexican Government does desire to negotiate a settlement of its Lend-Lease indebtedness to the United States. It feels however that the sum now charged by us to the Mexican Government, even as an indebtedness in pesos, is unduly burdensome—the more so as the recent action of the Mexican Congress limits the possibility of real estate transfers to the Federal District, thus eliminating the wider field of real estate transfers for consular establishments elsewhere in the Republic. I interjected at this point the observation that I was quite certain, from the tenor of my instructions, that there was no likelihood that any proposal by the Mexican Government for a reduction of the 33 percent basis on which Mexico's indebtedness is calculated would be accepted in Washington. The Minister stated that he was aware of this and that his Government had no intention of requesting a reduction in the amount due but that it would seek to bring about a reduction of the indebtedness by the return to the United States of such Lend-Lease equipment as had not been used and for which no use could be foreseen. He added that the appropriate officials will undertake<sup>1</sup> a survey and inventory of the material delivered to Mexico under the Lend-Lease Agreement for the purpose of ascertaining what material might be returned should we be willing to receive it.

With respect to property in Mexico City that might be made available to us, Señor Torres Bodet stated that some thought has been given to the possibility of delivering to us the grounds on Calle Bucareli on which the Ministry of Gobernación now stands. He also stated that there are other Government-owned properties which we might prefer and that they will be selected and mentioned to us at a later date.

Respectfully yours,

WALTER THURSTON

812.24/2-1048

*The Secretary of State to the Embassy in Mexico*

CONFIDENTIAL  
No. 330

WASHINGTON, July 26, 1948.

SIR: Reference is made to the Department's instruction No. 1585 of November 19, 1947 and the Embassy's despatches No. 5225 of December 18, 1947, No. 5258 of December 23, 1947, No. 6 of January 2, 1948

and No. 287 of February 10, 1948<sup>1</sup> relating to negotiations toward a settlement of the Mexican Government's lend-lease accounts and the subject of this Government's buildings program.

With reference to the second paragraph of your despatch No. 5225, the impediments interposed by the Foreign Minister are seriously regretted by the Department. As you are aware, the Department has desired the earliest possible arrangement providing for the settlement of and payments against this lend-lease indebtedness in order that active progress might accelerate the buildings program.

Due to the unforeseen delay in reaching terms with the Mexican Government it is now necessary to withdraw the formal settlement proposal which was submitted to the Embassy as an attachment to the Department's instruction No. 1585. In its place there is transmitted herewith a new, or revised version of the first proposal in which, it will be noted, there have been made a number of changes, principally those which involve the provision of funds for the Embassy's operating expenses (paragraph A(2)), the method of applying a rate of exchange (paragraph A(3)) and a newly arranged schedule of payments (paragraph B).

It will be noted that the new schedule of payments begins with a payment of \$1,500,000 due February 15, 1949 and that subsequent payments, at three months' intervals, continue to August 15, 1951 when a final installment of \$1,000,000 will be payable. According to the latest note sent to the Mexican Embassy in Washington<sup>2</sup> the aggregate repayment responsibility of the Mexican Government for defense aid supplied through May 31, 1948 is \$12,072,689.33. For the purpose of expediting a settlement arrangement the Department is agreeable to the adoption of a round figure of \$12,000,000 as indicated in the last portion of paragraph B of the proposed note to the Mexican Government.

In the event that there is objection on the part of the Mexican Government to the exchange rate provision (paragraph A (3)) the Department will give further consideration to any counter proposal by the Mexican Government which is recommended by you. You will wish to keep in mind that the basic approach of this Government is to avoid the acceptance of the official rate as the sole effective exchange rate for the settlement of this indebtedness.

It is hoped, therefore, that at the first opportunity, you will resume and continue conversations with officials of the Foreign Ministry with the view of reaching an understanding pursuant to the terms of the

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<sup>1</sup> For instruction 1585 and despatch 5225, see *Foreign Relations*, 1947, vol. VIII, pp. 748 and 750, respectively. Despatches 5258, December 23, 1947 and 287, February 10, 1948, are not printed.

<sup>2</sup> Note of June 25, 1948, not printed.

revised proposal. In your conversations with the Mexican officials it may be stressed that it is the strong feeling of this Government that there should not be any further slowing up in the schedule of payments as now proposed; on the contrary, you may state that, since it is assumed that Mexico will no doubt wish to pay its lend-lease obligations, as others of the American republics have done, it is hoped these amounts of periodic payments may be increased because of the urgent concern of the Department for providing, as soon as possible, adequate housing facilities for Embassy requirements. As you understand, the program which the Department has in mind at this time includes the acquisition of sites and the construction of buildings in several important Mexican cities in addition to the work to be undertaken in the Capital, itself. This part of the buildings program should be the subject of a portion of your conversations with the Foreign Minister in order that further undesirable delays may be obviated.

. . . . .

The Department concurs with the viewpoint expressed to the Foreign Minister as reported in the Embassy's despatch No. 6, second paragraph. With reference to the suggestion that the Mexican Government might desire to return certain lend-lease materials, it should be noted that, in accordance with the terms of the lend-lease agreement signed with Mexico, the privilege of returning lend-lease materials is dependent upon a determination by the President of the United States that such materials are "useful in the defense of the United States of America". The validity of such an assumption would be highly questionable in this instance. Therefore, the return of lend-lease materials by the Government of Mexico at this or any later time would not appear to be warranted and the Department is not disposed to consider any proposal for such returns.

. . . . .

While desiring that you make the strongest possible effort to secure from the Government of Mexico its unequivocal acceptance of a lend-lease settlement arrangement in the form of this amended proposal, the Department is not unmindful of the seemingly deliberate tactics of procrastination which have characterized the official Mexican attitude in the matter of lend-lease payments. In the event that this impeding attitude continues to be maintained by the Mexican officials in spite of your renewed conversations you are authorized to suggest, at your discretion, that, in order that it may be submitted to your Government for appropriate consideration, the Mexican Government should hand to you an official statement indicating its acceptance in principle of the proposed settlement plan and further stating its readiness to



render such a settlement effective through the providing of budgetary funds not later than at the next assembly of the Mexican Congress.

The Department desires to be kept currently informed concerning developments in this matter.

Very truly yours,

For the Secretary of State :  
GARRISON NORTON

[Enclosure]

PROPOSED NOTE TO BE PRESENTED BY U.S. AMBASSADOR, MEXICO, TO THE  
MEXICAN FOREIGN MINISTER

EXCELLENCY: In the course of conversations held during the late months of 1947 concurrence was given to a revision of the terms of payment set forth in the last sentence of numbered paragraph 2 of the exchange of notes signed March 18, 1943, and accompanying the Lend-Lease Agreement signed the same date, between the Government of the United Mexican States and the Government of the United States of America, in the following form:

A. The obligation of the United Mexican States may be discharged by payment of the amount due in United States dollars, or, with the approval of the Government of the United States, by any or all of the following means;

(1) When the Government of the United States wishes to acquire any property, real or personal, tangible or intangible, or to improve any property in which it has an interest, located in the Republic of Mexico or in territory under the jurisdiction of the Government of Mexico, at the expense of the Government of Mexico, the Government of the United States will request at any time or times and the Government of Mexico agrees at any such time or times to enter into negotiations with the Government of the United States, and to use its best efforts, consistent with its public policy, to consummate without any undue delay appropriate contracts by mutual agreement wherein the Government of Mexico will furnish to the Government of the United States, or corporation designated by the Government of the United States, the properties or improvements it desires or which its representatives have selected. Representatives of the Government of the United States may, at their discretion, conduct discussions directly with owners or with contractors for improvements as to fair terms and price prior to the acquisition of such property or improvements by the Government of Mexico for delivery to the Government of the United States. When performance of any such contract is made by the Government of Mexico, the Government of the United States shall credit the Government of Mexico with the United States dollar equivalent of the fair value received at an exchange rate as provided in paragraph A (3), such credit being applied first to past due interest, if any, and then to interest

and principal currently due and finally to the payment of all remaining unpaid installments of principal in the order of their maturity.

(2) In the event the Government of the United States wishes to receive local currency of the Government of Mexico for the payment of any or all expenditures in Mexico of the Government of the United States and its agencies, the Government of the United States may request at any time or times, and the Government of Mexico agrees to furnish at such time or times, Mexican currency at an exchange rate as provided in the following paragraph—A (3)—, in any amount not in excess of the net outstanding balance of principal (whether or not then due in United States dollars) plus interest (then due in United States dollars) payable under the terms of this settlement arrangement.

In the event that local currency is received by the Government of the United States under the terms of this settlement arrangement, the United States dollar equivalent of the amount received shall be credited first to past due interest, if any, and then to interest and principal currently due, and finally, to the payment of all remaining unpaid installments of principal in the order of their maturity.

(3) The rate of exchange for each transaction under this settlement arrangement for which a rate of exchange is required shall be that rate most favorable to the United States which, at the time of such transaction, is available to any party; provided such rate is not unlawful and, if both countries have agreed par values with the International Monetary Fund, is not prohibited by the Articles of Agreement of such Fund.

B. The Government of the United Mexican States will liquidate the obligation incurred under the terms of the Lend-Lease Agreement of March 18, 1943, in accordance with the following payment schedule:

<i>Due Date On or Before</i>	<i>United States Dollars or Mexican Pesos Equivalent</i>
February 15, 1949.....	\$1, 500, 000. 00
May 15, 1949.....	1, 500, 000. 00
August 15, 1949.....	1, 000, 000. 00
November 15, 1949.....	1, 000, 000. 00
February 15, 1950.....	1, 000, 000. 00
May 15, 1950.....	1, 000, 000. 00
August 15, 1950.....	1, 000, 000. 00
November 15, 1950.....	1, 000, 000. 00
February 15, 1951.....	1, 000, 000. 00
May 15, 1951.....	1, 000, 000. 00
August 15, 1951.....	1, 000, 000. 00

The total amount due, and to be paid under this settlement arrangement shall be twelve million United States dollars (\$12,000,000.00). It is understood and agreed that this amount relates only to charges arising out of defense aid transferred, or otherwise supplied under the specific terms of the Lend-Lease Agreement of March 18, 1943 and that it does not include charges against such other accounts as

those relating to vessels leased under Charter Party Agreements, nor to cash repayment obligations and other similar accounts; such accounts, where they may exist, are subject to treatment separately and apart from this lend-lease settlement arrangement.

C. Interest shall be paid by the Government of Mexico to the Government of the United States at a fixed rate of 2 and  $\frac{3}{8}$  percent per annum on any installment payment not made on the due date as scheduled in paragraph B, above, and shall begin from such due date and continue until date of payment.

D. The Government of Mexico will be free to make advance payments in United States dollars, or, subject to the concurrence of the Government of the United States, by any of those other means specified in paragraph A above, of any or all of the several payments provided for in paragraph B above.

E. Upon the receipt, by the Government of the United States, of the final payment due under this settlement arrangement and conditional only upon the satisfactory fulfillment of the terms and conditions made a part hereof, the Lend-Lease Agreement of March 18, 1943 shall, by virtue of such settlement, become terminated by the mutual consent of the two signatory Governments as provided for in Article VII of the Agreement, provided, however, that nothing in this settlement arrangement shall, at any time, either waive or modify the force of the provisions of Article IV and Article V of the Lend-Lease Agreement.

If this arrangement is in accordance with Your Excellency's understanding of the substance of the conversation already held, it would be appreciated if Your Excellency would so indicate in writing.

Accept, Excellency, the renewed assurances of my highest consideration.

[AMBASSADOR] <sup>3</sup>

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<sup>3</sup> Brackets appear in the source text.

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812.24/9-1048

*The Acting Secretary of State to the Embassy in Mexico*

CONFIDENTIAL  
No. 460

WASHINGTON, October 7, 1948.

SIR: Reference is made to the Embassy's despatches No. 1464 of August 31, 1948 and No. 1531 of September 10, 1948 <sup>1</sup> on the subject of the Mexican Government's lend-lease indebtedness to the United States.

It is noted that a formal Note, based upon the draft proposal transmitted as an enclosure to the Department's instruction No. 330 of July 26, 1948 was addressed by the Embassy to the Mexican Foreign Office on August 18, 1948 and that a reply is expected soon.

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<sup>1</sup> Neither printed.



The Department notes with satisfaction that since the approval of a Constitutional Amendment has cleared the way for the acquisition by foreign governments, including the United States, of property in the Federal District for Embassy purposes the Mexican National Government will take steps to cause the State legislatures to expedite the passage of similar amendments which will permit the acquisition of other properties outside the Federal District for foreign buildings purposes.

The Department regrets that it is unable to modify its previously announced position regarding the unsuitability of the Calle Bucareli property to the buildings program. Since that program will eventually involve the expenditure of a comparatively large sum of money by this Government it is most important that care be exercised in the selection of sites which will be both suitable to our needs and compatible with our long-range objectives.

The Department, while prepared to give thorough consideration to any properties of Mexican Government ownership, cannot and will not make any prior commitment to eventually purchase any such property or properties. The success of our program is dependent upon the acceptance by the Mexican authorities of those terms expressed in the text of the settlement arrangement proposal which provide for and permit direct negotiation with private owners of properties by representatives of this Government. Of course, should any given circumstance warrant, consultation with Mexican Government officials would be in order.

In the meantime, pending favorable action by State legislative bodies, there would appear to be no further legal obstruction to impede immediate activation of the buildings program in the Federal District. Consequently, it is important that further delaying tactics on the lend-lease settlement by the Mexican authorities be emphatically discouraged. The question raised on the total amount of the "treaty" lend-lease indebtedness is irrelevant as all billings sent through the Mexican Embassy in Washington by the Department have been supported in the customary manner by fully documented statements of accounts. Back of these, of course, are vouchers held by the various agencies and departments of our Government, bearing the signatures of Mexican officials in acknowledgment of the transfer of materials. It should be understood that the Department's decision to reduce the overall actual amount of the lend-lease account to round figures was, and is conditional upon the anticipated acceptance by the Mexican Government of terms approximating those contained in the draft proposal; any widely varying counter proposal will necessitate reconsideration of that amount and will also take into consideration the still unliquidated

status of such other contingent obligations as cash reimbursement accounts long past due on the books of the Treasury Department and the matter of the request for return of lend-lease copper which has gone unheeded by the Mexican authorities for the past several years. The proposal, as made, is clear cut in its terms and method of payment and is not confused by the introduction of extraneous accounts which are not and never were a part of the lend-lease program. This would refer, among other things, to the matter of wages withheld from Mexican wartime workers in this country for the Railroad Retirement Fund which has already been answered in the Department's instruction No. 330 as there has been no change of status since that time.

The Department desires to put the foreign buildings program into active operation during the coming year as there is a pressing need for providing United States Government owned office facilities and residential accommodations in Mexico. The proposed draft specifies that the initial payment under a settlement arrangement be made on February 15, 1949, with proportionate quarterly amortization payments thereafter. The Department desires that these payments be made as proposed and, also, that the reservation of the right of this Government to exercise its option of calling for acceleration of payments be retained.

In pressing your negotiations with the Foreign Ministry it should be carefully held in mind that failure to reach a satisfactory settlement arrangement during the earlier stage of the present session of the Mexican Congress may prove prejudicial to the Department's defined objectives as any delay which would postpone the authorization of an immediate appropriation of funds for a lend-lease settlement might conceivably mean that it would be at least another year before such moneys would be made a part of the Mexican budget.

For the Embassy's special information, aside from one of the smaller countries whose lend-lease indebtedness is well under \$100,000 and which nation has been severely handicapped by internal difficulties, the Republic of Mexico is the only country amongst all of the American republics which received lend-lease aid which has not as yet made at least a substantial reimbursement on its lend-lease indebtedness. By the terms of the Lend-Lease Agreement signed on March 18, 1943, final payment on Mexico's lend-lease indebtedness is due on January 1, 1949. The character of the proposal now made to the Mexican Government, extending and otherwise alleviating the burden of responsibility resting upon that Government, should be taken as a token of friendly consideration on the part of the Government of the United States based upon an appreciation of Mexico's serious financial problems, and it is believed that there is now offered a formula for payment

fully within the means and ability of the Mexican economy to discharge.

The Embassy is requested to continue its representations before the Mexican authorities in this matter which now includes the early passing of appropriate amendments by the several State legislatures to permit the carrying-out of the full range of the foreign buildings program within the shortest practicable time.

Very truly yours,

For the Acting Secretary of State:

GARRISON NORTON

812.24/3-2949

*The Secretary of State to the Mexican Ambassador (Colina)*

The Secretary of State presents his compliments to His Excellency the Ambassador of Mexico and has the honor to refer to recent conversations held with His Excellency by officers of the Department of State in connection with the negotiations which have been conducted in Mexico City between the Government of Mexico and the American Embassy there.

Due to a series of circumstances which have prevented the reaching of a settlement plan for the liquidation of the Mexican Government's lend-lease accounts, during negotiations in Mexico of more than a year's duration, it has been decided that all further negotiations in respect to lend-lease matters will be conducted in Washington. The Department, therefore, in the very near future, will renew its conversations with the Embassy and hopes that, as a result of this action an early and mutually satisfactory settlement arrangement may be achieved.<sup>1</sup>

WASHINGTON, April 20, 1949.

<sup>1</sup> These conversations, interrupted in the summer of 1949, were resumed in 1950 and resulted in an agreement of February 24, 1951; exchange of notes, transmitted to the Department in despatch 2141, February 26, 1951 from Mexico, not printed (712.56/2-2651).

**SUSPENSION OF UNITED STATES-MEXICAN NEGOTIATIONS ON A  
PROPOSED BILATERAL AIR TRANSPORT AGREEMENT<sup>1</sup>** •

711.1227/9-2448

*The Personal Representative of President Truman (Brownell) to the  
Mexican President (Alemán)<sup>2</sup>*

CONFIDENTIAL

MEXICO, D.F., August 23, 1948. •

MY DEAR MR. PRESIDENT: Subsequent to the meeting which Ambassador Thurston and I had with you in your office on August 2, and

<sup>1</sup> For previous documentation see *Foreign Relations*, 1947, vol. VIII, pp. 751-764.

<sup>2</sup> Presented to President Alemán on August 25.



in accordance with your request, we met with your Minister of Communications<sup>3</sup> and discussed with him the matter of the proposed civil air transport agreement between Mexico and the United States. The Minister of Communications thereafter appointed conferees to represent Mexico in the negotiations, and Mr. Sydney B. Smith of the United States Civil Aeronautics Board and myself have had, during the past three weeks, a series of discussions with these conferees, in several of which the Ambassador participated. All of our conversations have taken place in a most cordial atmosphere, and we were accorded every courtesy and consideration by your representatives.

Agreement was reached on a number of important subjects. For the first time, I believe, the position of each country has been made clear on the many questions, some of a very technical nature, that are necessarily involved in a bilateral agreement of the type that we are considering. I am sorry to say, however, that we were unable to agree on three points which appear to be of major importance. This was a great disappointment to me, as I had much hoped that we would be able to report to you at this time that we had found a solution for all of the difficulties.

The differences spring from one basic principle to which the Mexican conferees have adhered throughout the course of our discussions. They acknowledge the fact that the United States is prepared to give Mexico full reciprocity in the matter of international routes between the two countries. They contend, however, that something more than this full reciprocity is needed by Mexico, and insist that if Mexican airlines are to survive in competition with airlines of the United States, the Mexican airlines must have some competitive advantage over the United States with respect to each route which is flown by Mexico between the two countries.

If this principle were followed in all of the many bilateral agreements that the United States has made with other countries it is obvious that the result would be grossly unfair to our nationals, and that our airlines would be placed at an impossible disadvantage. However, because of the special and close relationship existing between the United States and Mexico, the United States has been able to make a number of important compromises along the lines suggested by the Mexican conferees. As you will see from the enclosed memorandum,<sup>4</sup> the United States is quite prepared to grant to the Mexican airlines a number of important international routes between the two countries where the Mexican airline in question will have no direct competition from any United States airline. We have not been able to extend these concessions to include the three points to which I have referred above.

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<sup>3</sup> Agustín García López.

<sup>4</sup> Not printed.

You will find these points of difference summarized in the enclosed memorandum. For the purposes of this letter, it is sufficient to state them as follows:

A). Mexico asks for the monopoly right for a Mexican airline to carry all of the direct non-stop traffic between Mexico, D.F. and New York City.

B). Mexico asks for the monopoly right for a Mexican airline to carry all of the direct non-stop traffic between Mexico, D.F. and Los Angeles.

C). Mexico asks that only Mexican airlines be allowed to fly from Mexican points to San Antonio, Texas, and from San Antonio to Mexican points.

All three of these requests have been carefully explored with our State Department and our Civil Aeronautics authorities in Washington. We have been able to make a compromise suggestion with respect to (B) and (C), which you will find explained in the enclosed memorandum. With respect to the Mexico, D.F.-New York City operation, we can only say (as we have said in the other two cases) that there is no objection to giving Mexico the direct non-stop rights so long as similar rights are given to a United States airline. I am sorry to be obliged to advise you that our Government has instructed the Ambassador and myself that these concessions are the limit to which the United States can go.

During the course of our pleasant talk on August 2, I took the occasion to say to you that I did not believe it would be possible for us to formulate a bilateral agreement which would be satisfactory to all of the interests involved in both countries, and that any agreement would be objected to by certain interests in each country. I believe that you agreed. The present United States proposal would not be received with enthusiasm by certain of the airlines of the United States, and I am advised that it would be opposed by one Mexican airline. I believe that you will find, however, that it would be acceptable to the other interested Mexican airlines. In brief, those airlines of each country which are now operating between the two countries under special permits will oppose any new arrangement which will introduce competition which they feel might possibly reduce their business. The airlines which do not now enjoy the right to fly between the two countries are those which would favor the prompt execution of the proposed bilateral.

It is my feeling and belief that the statements made in opposition to the proposed bilateral are greatly exaggerated, and that if it were executed, all of the airlines involved would be able to operate. This, however, is only a part, and the less important part, of the picture. The argument of controlling importance is that the execution of the

agreement would make it possible for the air traffic between our two countries to be expanded and improved in a manner that could not fail to be of substantial advantage to each nation. In addition, I believe that the completion of such an agreement at this time, after the several unsuccessful attempts made during the past two or three years, would effectively demonstrate the close relationship and understanding that exist between our two Governments.

I am mindful of the fact that at the present moment you have before you for attention various matters of immediate and pressing importance. I am glad that in our conferences on the bilateral agreement we have been able to simplify issues so as to reduce to a minimum the decisions which you are called upon to make. I much hope that you will find it possible to make these decisions so that I can carry your conclusion back with me to President Truman and our State Department. If you find that this is not possible, we are prepared and instructed to advise you that our Government will greatly appreciate a reply at as early a date as circumstances permit.

I remain, with great respect,

Very truly yours,

GEORGE A. BROWNELL

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*Department of State Press Release: Joint Statement by the United States and Mexican Governments*<sup>1</sup>

WASHINGTON, August 26, 1948.

During the past few weeks, conversations have been carried on in Mexico City between the Government of Mexico and the Government of the United States of America, with a view to concluding a bilateral air-transport agreement between the two countries. George A. Brownell, personal representative of President Truman, has conducted the negotiations for the United States in cooperation with the American Embassy. Lic. García López, Minister of Communications and Public Works, and other members of the staff of the Ministry of Communications were designated by President Alemán to represent Mexico in the conversations. Because of different views with respect to certain air routes to be mutually operated by both countries on a permanent basis, the conversations did not result in complete and final agreement in spite of compromises made by both sides in an effort to meet each other's views. However, the conferees did succeed in reaching agreement on many aspects of the problem and have clearly defined

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<sup>1</sup> Department of State *Bulletin*, September 5, 1948, p. 300.



the issues still to be resolved. These are now receiving careful consideration by President Alemán.<sup>2</sup>

Both the Minister of Communications and Public Works and the American Embassy feel that the discussions have been fruitful and instructive. Mr. Brownell has expressed to Dr. García López his appreciation of the sympathetic and searching approach of the Minister and his colleagues and for the many courtesies extended to the United States Representatives.

The two Governments have jointly declared that the suspension of the current discussions in no way indicates a rupture of civil-aviation relations or air-transport services between the two countries or an abandonment of the desire of both Governments to complete an air-transport agreement.

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<sup>2</sup> On August 22, 1949, the Ambassador in Mexico (Thurston) received a negative reply to the proposal submitted by General Brownell on his mission of the previous year. A copy of this letter written, at the direction of President Alemán, by Manuel Tello, Undersecretary for Foreign Relations, was transmitted to the Department in despatch 1093, August 25, 1949 (711.1227/8-2449).

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#### UNSUCCESSFUL NEGOTIATIONS FOR REVISION OF THE 1942 TRADE AGREEMENT BETWEEN THE UNITED STATES AND MEXICO<sup>1</sup>

*Department of State Press Release: Negotiations for Revision of Trade Agreement With Mexico*<sup>2</sup>

WASHINGTON, April 13, 1948.

Negotiations for the revision of schedule I of the trade agreement between the United States and Mexico<sup>3</sup> will be initiated at Mexico City next week, probably on Tuesday, April 20.<sup>4</sup> Schedule I covers tariff concessions on imports into Mexico from the United States.<sup>5</sup>

Because of the many questions to which the Mexican trade agreement has given rise in this country in recent months, the Department of State believes that the following statement will be useful to an understanding of the announced negotiation.

1. Several times during 1945 and 1946 the Mexican Government suggested revision of the trade agreement of December 1942 with the United States stating that circumstances since signature had thrown the benefits out of balance to Mexico's disadvantage.

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<sup>1</sup> For previous documentation on discussions between the United States and Mexico regarding Mexican import restrictions and trade agreement revision, see *Foreign Relations*, 1947, vol. VIII, pp. 772 ff.

<sup>2</sup> Department of State *Bulletin*, April 25, 1948, p. 553.

<sup>3</sup> For reciprocal trade agreement of December 23, 1942, see Department of State Executive Agreement Series No. 311, or 57 Stat. 833.

<sup>4</sup> The first meeting was held on May 4, 1948.

<sup>5</sup> Department of State *Bulletin* of January 11, 1948, p. 59, and February 15, 1948, p. 212.

2. In 1947, the Mexican Government, impelled by circumstances and after consultation with this Government in the cases where it was required, took various steps to restrict imports.

3. The circumstances impelling this action were

(a) A marked and continuing decline in Mexico's foreign-exchange reserve largely due to an adverse trade balance with the United States contrary to the prewar situation.

(b) Strong domestic pressure for increased tariffs

(i) To protect war born industries;

(ii) To encourage economic development;

(iii) To change the specific duties to compound duties equivalent on an ad valorem basis to those applying when the agreement was signed in 1942.

4. The principal steps taken by Mexico were

(a) A prohibition, in July 1947, against imports of a wide range of nonessential goods including some items in the trade agreement with the United States.

(b) A change, in November 1947, to the ad valorem equivalent of the duty in 1942 or higher, of the rates of duty on some 5000 items *not* in the trade agreement.

5. In December 1947 it became evident that Mexico would raise the duty on items in the trade agreement. At this point the United States

(a) Could have announced its intention of denouncing the agreement in the event of such action by Mexico or

(b) Could have sought a solution to the problem through negotiation and agreement.

6. Denunciation of the agreement

(a) Would have resulted in a major, and it is believed, unnecessary breach in United States economic relations with Mexico.

(b) Would have lost for the United States the opportunity to influence the amount by which Mexico would increase rates and to obtain compensation for such increases by further bargaining.

7. Therefore, after full consideration by the interdepartmental trade-agreements organization of all phases of the problem, and with over-all United States-Mexico relations in mind, the United States agreed to provisional increases in duties on trade-agreement items to levels equivalent, on an ad valorem basis, to those provided in the trade agreement when it first came into effect. In return Mexico agreed to negotiations intended to restore the balance in the agreement through revision of the new Mexican rates on items not now in the agreement.

8. If a satisfactory adjustment of Mexican tariff rates should prove impossible to negotiate, the United States is not precluded from

seeking agreement on the basis of withdrawing concessions previously made by this country to Mexico or from terminating the agreement in accordance with its provisions.

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611.1231/8-548

*Statement by the Counselor of Embassy for Economic Affairs (Bohan) at the Ninth Plenary Meeting, United States-Mexican Trade Agreement Negotiations*<sup>1</sup>

MEXICO, D. F., August 3, 1948.

[Translation]

MR. MINISTER AND GENTLEMEN : In accordance with the conversation which I had the pleasure of having with the Minister on July 29, I advised my Government that the [Mexican] negotiators felt it would be impossible to find a basis for the revision of Schedule I of the Trade Agreement and, therefore, they suggested that consideration be given to means for bringing the present negotiations to a close.

. . . . .

Let me request that you be patient with me while I make a brief résumé of the position of the United States in the present negotiations, a position which we consider is both reasonable and understanding.

The United States fully realizes the desire of the Mexican Government to promote the industrialization program and is prepared to modify Trade Agreement concessions in those cases where a higher duty is necessary in order to give adequate protection to sound industry. It has already proved its willingness in this regard by having agreed, in December 1947, to very substantial increases in duties affecting eleven Schedule I fractions. This, in addition to the general increase to which my Government also agreed.

The United States is willing to modify Article XI, the so-called escape clause, so that in case of emergency the Mexican Government may take immediate action to protect a local industry if imports cause or threaten to cause serious injury to a domestic industry. The United States believes that it has gone as far as it safely can in balancing elasticity and stability in the escape clause and that it would be unwise for either Mexico or the United States to go further than the suggested draft we have handed you for a new Article XI.

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<sup>1</sup> Copy transmitted to the Department by the Ambassador in Mexico (Thurston) in his despatch 1306, August 5, 1948, not printed.



In connection with Article X—restrictions on imports for balance of payments reasons—the United States is prepared to extend to Mexico the very liberal provisions contained in Articles XII and XV of GATT, which we believe would fully meet the needs of Mexico in connection with its balance of payments difficulties.

I feel that you will agree with us that my Government genuinely desires to find a solution for the problem of the revision of the Trade Agreement, but if you gentlemen feel that such a solution is beyond the bounds of present possibilities, we have been authorized to suggest that these conversations be brought to an end through a joint denunciation of the present agreement.

A suggested formula has been submitted to us by the Department. Briefly, it provides that by mutual agreement our Governments terminate the Trade Agreement giving six months' notice of intention, with the proviso that the agreement can remain in effect beyond that period if Mexico should, in the meantime, indicate its desire to become a member of GATT and if conversations indicate that a basis exists for accession to that general agreement. This would have a number of advantages. It would show that both countries sincerely desire to prevent world trade from returning to the chaotic conditions of the 1930's, and this is of vital interest to the basic economies of both Mexico and the United States; it would assure Mexico of concessions which would otherwise be lost by earlier termination, since in 1946 some fifty-three million dollars of United States imports from Mexico entered under reduced duties which would revert to higher levels if the agreement should no longer be effective; it would not prejudice Mexican industry since during the next six months at least the devaluation of the peso will provide a vastly increased barrier to foreign products; and it could not affect the exchange situation since so large a percentage of the commodities now included in Schedule I are subject to strict import control by the Mexican Government.

We ask our Mexican friends to consider the first alternative before the second. Our basic philosophies cannot be so far apart as to prevent agreement. Mexico's economy still depends primarily on foreign trade and the United States is prepared to cooperate and assist Mexico in the realization of any sound industrial program. The American negotiators, however, if Mexico feels that the agreement must be terminated, are prepared to recommend to their Government the timing and manner of termination which, in the opinion of the Mexican Government, will do the least harm to Mexican economy.<sup>2</sup>

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<sup>2</sup> The formal trade agreement negotiations of 1948 came to a close on August 12, and were resumed on February 16, 1949.

## REJECTION BY MEXICO OF UNITED STATES REQUESTS FOR PERMISSION TO USE MEXICAN TERRITORIAL WATERS FOR DEFENSE PURPOSES

### *Editorial Note*

In response to a request of the Secretary of Defense (Forrestal), the Department of State instructed the Ambassador in Mexico (Thurston) to make inquiries of the Mexican authorities concerning a proposal for development of a guided missile range site over the Gulf of California. Ambassador Thurston reported in telegram 53, January 16, 1948, 7 p. m. (811.215/1-1748), not printed, that he had discussed the matter with the President of Mexico (Alemán) and the Minister for Foreign Affairs (Torres Bodet). Their objections to the proposal, he said, were instantaneous and based upon the fact that the Mexican Government was without constitutional authority to grant permission for such a project.

A note of July 19, 1948 from the Mexican Foreign Office informed the United States Embassy that since the urgent need for extensive training grounds for Navy flyers had passed, the Mexican Government withdrew its permission, granted in a memorandum of September 30, 1943 from Maj. Gen. F. Castillo Majera, then Chief of the Mexican section of the Joint Mexican-United States Defense Commission, for use of Mexican territorial waters for bombing practices (despatch 1212, July 27, 1948 from Mexico, 812.014/7-2748).

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### AGREEMENT BETWEEN THE UNITED STATES AND MEXICO RESPECTING A FISHERIES MISSION

[For agreement, further extending the agreement effected by exchanges of communications dated April 17, May 22, July 22, and 27, and October 24, 1942, effected by exchange of notes signed at Washington September 15 and October 6, 1948, entered into force October 6, 1948, see Department of State Treaties and Other International Acts Series No. 1869, or 62 Stat. (3) 3575.]

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### ARRANGEMENTS BY THE UNITED STATES AND MEXICO REGARDING TEMPORARY MIGRATION OF AGRICULTURAL WORKERS INTO THE UNITED STATES

### *Editorial Note*

For agreement between the United States and Mexico respecting temporary migration of Mexican agricultural workers, superseding the agreements of April 26, 1943, and March 10, 1947, effected by ex-

change of notes signed at Mexico, February 20 and 21, 1948, entered into force February 21, 1948, see Department of State Treaties and Other International Acts Series No. 1968, or 62 Stat. (pt. 3) 3887; for the Departmental announcement on the agreement, see the Department of State *Bulletin*, March 7, 1948, page 317.

On October 18 the Mexican Government declared that the United States had violated the agreement by permitting the illegal entry of Mexican farm workers into Texas from the Mexican border near El Paso and, consequently, that the Mexican Government considered the February 21 agreement as abrogated (note from the Mexican Embassy, October 18, 811.504 Mexico/10-1848); for Department of State press release, "U.S. to investigate Mexican charges of illegal entry of Mexican workers", see the Department of State *Bulletin*, October 21, 1948, page 562. For the United States note in reply, October 22, and the Mexican Embassy's note of October 23, accepting this expression of regret and promise of corrective measures, see *ibid.*, November 7, 1948, pages 585-586.

The Mexican Government accepted the United States proposal that conversations be held to formulate a revised agreement beginning early in January 1949 (memoranda by the Department of State to the Mexican Embassy, October 27 and December 20, 1948, 811.504 Mexico/10-2348 and /12-2048.)

For previous documentation on arrangements for migration of Mexican agricultural workers into the United States, see *Foreign Relations*, 1947, volume VIII, pages 823 ff.



## PANAMA

### GENERAL RELATIONS BETWEEN THE UNITED STATES AND PANAMA

711.19/1-2048

*Memorandum by the Assistant Chief of the Division of Central America and Panama Affairs (Wise)*<sup>1</sup>

SECRET

[WASHINGTON,] January 20, 1948.

Subject: General Relations Between the United States and Panama

The attached study is a list of topics of significance in our relations with Panama. They are numerous and varied. Mr. Daniels will recall that many of these matters were discussed at the time of the negotiations of the 1936 Treaty<sup>2</sup> as well as before and afterwards. Problems in our relations with Panama are perennial. There never seems to be any complete settlement of most of them. Only certain phases of settlement are reached and after a while some new aspect of the problem presents itself and calls for renegotiation.

Each item is briefly described and insofar as possible the status of pending matters is given.

[Annex]

SECRET

January 20, 1948.

### GENERAL RELATIONS BETWEEN THE UNITED STATES AND PANAMA

The following study is a brief review of outstanding matters which have entered into our relationships with Panama since 1903. Some of the items referred to can be considered settled, others are still pending and will be important in future negotiations with Panama.

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<sup>1</sup> Addressed to the Assistant Secretary for Political Affairs (Armour), the Director for the Office of American Republic Affairs (Daniels), the Chief, Division of Central America and Panama Affairs (Newbegin), and W. Tapley Bennett, Jr., Area Specialist, CPA.

<sup>2</sup> For the general treaty of friendship and cooperation signed at Washington March 2, 1936 (accompanied by sixteen exchanges of notes, and additional exchanges of notes signed February 1 and June 25, 1939), see Department of State Treaty Series No. 945, or 53 Stat. 1807.

*Convention of 1903<sup>3</sup> and Treaty of 1936*

The Convention of 1903 was negotiated with Panama in order to facilitate the construction of the Panama Canal. This was a tremendous undertaking and one for which we lacked experience. Also, Panama's institutional stability remained to be consolidated, following her achievement of independence from Colombia by revolution. Accordingly, as a safeguard for the Canal project, we obtained in the provisions of the Convention certain far-reaching rights. Among them was the power to intervene in Panama to preserve public order. The decision as to what constituted the necessity for such intervention was left entirely to us. We also acquired the right to take additional lands or adjacent waters which we might need for Canal purposes over and above those comprised in the Canal Zone without consulting the Government of Panama.

In 1933 the Good Neighbor Policy was set forth and in accordance with its principles the United States and Panama signed and ratified the Treaty of 1936 which modified the former convention and placed relations between the two countries on a status consistent with the new concept of international policy. The Treaty of 1936 renounces most of the special rights enjoyed by the United States under the Convention of 1903 and substitutes for those rights the principle that in all matters relating to the operation, maintenance, sanitation and protection of the Panama Canal the two countries are on a partnership basis, and have a joint and vital interest which will cause them to consult together and adopt by common accord the measures necessary to protect that common interest.

*Defense Sites Agreement of May 18, 1942<sup>4</sup>*

Pursuant to the provisions of the 1936 Treaty the two Governments at the outbreak of the recent war consulted together and agreed that Panama would grant to the United States the temporary use for Canal defense purposes of certain lands (which totaled 134 sites before the war was terminated) in territory under the jurisdiction of the Republic of Panama. The provisions of the understanding reached were set forth in the Defense Sites Agreement of May 18, 1942. It provided that "These lands shall be evacuated and the use thereof by the United States of America shall terminate one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect. If within that period the two Gov-

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<sup>3</sup> For the Isthmian canal convention (the John Hay-P. Buneau-Varilla treaty) signed at Washington, November 18, 1903, see Department of State Treaty Series No. 431, or 33 Stat. 2234.

<sup>4</sup> For text of the agreement for the lease of defense sites, signed at Panama on May 18, 1942, see Department of State Executive Agreement Series No. 359, or 57 Stat. (2) 1232.

ernments believe that, in spite of the cessation of hostilities, a state of international insecurity continues to exist which makes vitally necessary the continuation of the use of any of the said defense bases or areas, the two Governments shall again enter into mutual consultation and shall conclude the new agreement which the circumstances require."

An effort was made by the United States in 1946 and 1947 to replace the 1942 Agreement with a new one designed to meet peacetime requirements for the adequate safeguards of the Panama Canal. Although an agreement was signed on December 10, 1947<sup>5</sup> it was rejected by the Panamanian National Assembly and as a result the United States ordered the evacuation of its armed forces from all sites obtained in Panama under the 1942 Agreement. No plans have been made concerning further negotiations with Panama on the matter.

*Twelve-Point Agreement of 1942<sup>6</sup>*

Simultaneous with the signing of the 1942 Defense Sites Agreement, an understanding was reached between the two Governments concerning the settlement of twelve outstanding problems in the relations between the two countries. The three most important of these, upon which action has already been taken, are the following: (Two other important matters, still pending action, are treated in the next section of this report.)

(1) *Waterworks and Sewerage Systems in Panama City and Colon.* Pursuant to Public Law 48 of May 3, 1943 the United States transferred to Panama free of cost all of its rights, title and interests in the system of sewers and waterworks in the cities of Panama and Colon. Also, the United States renounced the right which it obtained in the first paragraph of Article VII of the Convention of 1903 as modified by Article VI of the Treaty of 1936 to acquire lands, buildings, water rights or other properties necessary for purposes of sanitation, such as the collection or disposal of sewerage and the distribution of water in the cities mentioned. The United States likewise renounced the authority contained in Article VII of the Convention of 1903 to impose and collect water rates and sewerage rates in those cities for the payment of interest and amortization of the principal and the costs of said works.

(2) *Railroad Lots in Panama and Colon.* Pursuant to Public Law 48 of May 3, 1943 the United States transferred to Panama free of cost all of its rights, title and interest to the lands belonging to or of which the Panama Railroad Company had usufruct in the cities of Panama and Colon which were not currently or prospectively needed for the maintenance, operation, sanitation and protection of

<sup>5</sup> For documentation on this subject, see *Foreign Relations*, 1947, vol. VIII, pp. 881 ff.

<sup>6</sup> Department of State Executive Agreement Series No. 452, or 59 Stat. (2) 1289.



the Panama Canal, or of its auxiliary works or for the operation of the Panama Railroad.

(3) *Cost of Rio Hato Highway.* By Public Law 48 of May 3, 1943 the United States liquidated the credit of \$2,500,000 made available to Panama by the Export-Import Bank for the construction of Panama's share of the Chorrera-Rio Hato Road.

#### *Principal Pending Problems*

(1) *Claims.* Our El Encanto claim against Panama arose thirty years ago as a result of the expropriation by Panama of land owned by United States citizens. The United States has agreed to a cash settlement of \$400,000 or to arbitrate in the original amount of \$1,409,000 plus interest.

Six soldiers of the United States Army were injured during disturbances which occurred in Panama in 1915 and resulted in our so-called Soldiers' claim, amounting to \$7,150. We have agreed to settle for \$3,156.

Panama's Malambo Fire claim against the United States arose in 1906 as a result of a fire in Colon caused by alleged negligence of United States Government employees. Panama has expressed a willingness to reduce the original claim from \$125,000 to \$53,800.

In the interest of an *en bloc* settlement of these three claims, the United States has presented a proposed draft convention whereby Panama would agree to pay to the United States in cash the balance of the three claims, a sum amounting to \$349,356. Before the defense sites issue became so complicated Panama informally had agreed in principle to this procedure and to settlement in the amount stipulated. There have been no recent negotiations on the settlement of these claims. This Government's position consistently has been that Panama must settle the El Encanto claim before serious consideration will be given by the United States to meeting Panama's requests concerning other pending problems of significance.

(2) *Aeronautics Agreement.* This Government has drafted a proposed agreement, the provisions of which would establish a permanent United States-Panama joint aviation board to provide for the coordination, supervision and regulation of air traffic in Panama. This board would be the sole agency for prescribing rules and regulations relating to civil and military air traffic in Panama, giving due consideration to the special needs of both Governments.

Recently, our draft was discussed informally with the Panamanian Foreign Office which considers that its provisions are written too much in the same tone of the defense sites agreement just rejected by the National Assembly.

(3) *Moving of the Railroad Station at Panama.* As an important item of the Twelve-Point Agreement reached in 1942, the United States

agreed to remove from their present site the terminal facilities of the Panama Railroad in Panama, including the station, yards and other appurtenances. This agreement was subject to the making available without cost to the United States by Panama of a new site deemed suitable for the purpose by the two Governments.

This Government is to receive no important benefits from the change and as long as Panama does not urge compliance with this agreement the matter should lie dormant. There are many details with respect to the proposed removal of the station which have not been defined and it will take considerable negotiation to determine the rights and responsibilities of each Government with respect to disposition of the old site and construction projects at the new one.

(4) *Tunnel or Bridge Under or Over the Canal at Balboa.* As another important item of the Twelve-Point Agreement of 1942, the United States expressed its awareness of the importance to Panama of constant and rapid communication across the Canal at Balboa and stated its willingness to agree to the construction of a tunnel under or a bridge over the Canal at that point. This commitment was to be satisfied following the end of World War II. In the meantime the United States agreed to improve the present ferry service.

Recently Panama has shown more interest in our financial assistance toward completing the Inter-American Highway with a cement surface to the Costa Rican border than in the construction of additional crossing facilities at Balboa. No negotiations have been undertaken concerning this interest of Panama. The United States has been unwilling to begin any serious consideration of a tunnel or bridge until plans for the modernization of the Panama Canal have been completed and approved. A bridge would be much cheaper than a tunnel. It has been estimated that the latter would cost some \$30,000,000.

(5) *Racial-Labor Discrimination in the Canal Zone.*<sup>7</sup> Panama persistently charges that United States citizens are given better treatment in the Canal Zone than are its own citizens. Our obligations under the 1936 treaty require a policy of equality of opportunity and treatment for Panamanians employed in the Zone. Although the State Department in its relations with Panama endeavors to place into actual practice the treaty commitments of this Government with respect to the exercise of a policy of non-discrimination in employment practices in the Canal Zone, full cooperation from all sectors of this Government has not been obtained.

Arrangements were made by the State, War, Navy and Labor Departments for a labor relations adviser to be assigned to the Canal

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<sup>7</sup> For previous documentation on discussions of alleged discriminatory treatment in the Canal Zone, see *Foreign Relations*, 1947, vol. VIII, pp. 948 ff.

Zone Governor for the first four months of 1947. On June 1, 1947, he submitted a lengthy report on labor relations which offered evidence of both official and unofficial discrimination against Panamanians in the Zone and made definite recommendations for reforms.

Although the Governor during the past two years has taken steps to eliminate some of the causes for the charges against us for discrimination practices, the racial-labor policy of the Canal Zone needs thorough revision. Accordingly, this Government should take more positive steps than it has in the past to adopt necessary measures to eliminate discrimination and to coordinate labor policies of the various agencies of this Government working in the Canal Zone. Adoption of the recommendations of the report of the labor relations adviser would be a significant step in the right direction. To bring this about will require the full cooperation of the Secretary for National Defense and of the Governor of the Canal Zone.

(6) *Imported Labor in the Canal Zone.* Although the immigration of laborers into the Canal Zone rests solely with this Government, the United States is willing to cooperate to the extent feasible in satisfying the immigration policy of the Republic of Panama. Specifically, the United States in 1942 agreed, so far as practicable, to fill the needs for labor in the Canal Zone with classes of persons whose immigration is permitted by Panama and to forbid the entry into the territory of the Republic, except as might be necessary on brief routine business, of those persons (whom Canal Zone authorities have found or may find it necessary to introduce into the Canal Zone) whose immigration into the Republic is prohibited by Panama. We agreed to repatriate such persons when their services were no longer required.

Although those laborers brought into the Canal Zone for wartime projects have been repatriated, the Panamanians complain that our cooperation with the Republic with respect to the prohibition of undesirable immigration for continuing Canal Zone work is not as close as it should be.

(7) *Competition of Canal Zone Commissaries and Post Exchanges with Panamanian Commerce.* Panamanian merchants complain bitterly that Canal Zone commissaries and Army post exchanges offer them unjust competition. They complain that there exist sales of luxury and tourist articles in the Zone contrary to the provisions of the 1936 Treaty.

The civilian and military authorities of the Canal Zone maintain that the Panamanian complaint is for the most part unjust and charge that the difficulties lie largely with Panamanian merchants who place exorbitant prices on their merchandise in order to make big profits from tourists.



In an exchange of notes accompanying the 1936 Treaty and in the Twelve-Point Agreement of 1942, the United States agreed to afford regular and continued opportunity "for mutual conference and helpful exchange of views bearing on this question". Panamanian authorities have not taken advantage of our agreement to enter into a thorough study of the situation. Panama's standard of living is definitely improved through the presence of Canal Zone stores. During the war Panamanians depended greatly on the Canal Zone for food supplies.

(8) *Permanent Market in the Canal Zone for Panamanian Merchandise.* The Panamanian Government requests that the United States guarantee a permanent market in the Canal Zone for Panamanian produce at pre-established prices and quantities. While much Panamanian produce is bought by the Canal Zone and while steps have been taken recently to increase the market for Panama, Canal Zone authorities are reluctant to work out with Panama any guaranteed market because of Panama's inability to reciprocate with a guarantee for the quality and quantity of produce required and at prices equal to those obtained in other parts of the Caribbean or in the United States. Panama has insisted on a price guarantee equal to that which would be paid for the same produce in New Orleans.

We have expressed our willingness to continue conferences already begun with a view to working out arrangements whereby Panama could set up a central agency to accumulate produce from small operators in order that sufficient quantities can be assembled to justify purchase by the Canal Zone.

(9) *Importation of Alcoholic Beverages into the Canal Zone.* By Executive Order of March 25, 1935 the direct importation of hard liquor into the Canal Zone was prohibited. Since then, all hard liquor has entered the Canal Zone through the Republic of Panama, resulting in about one hundred per cent increase in cost per case. The Executive Order was issued as a result of Panamanian claims that direct importation of liquor from the United States or elsewhere was in direct competition with the local Panamanian industry and prevented Panama from taking advantage of the economic opportunities inherent in its geographical location.

Civilian, Army and Navy employees in the Canal Zone have tried unsuccessfully on various occasions since 1935 to have this Executive Order rescinded. Panama insists that the present policy of the United States be maintained. This Government at present is reviewing this question with a view to possible cancellation of the Executive Order. Such an act, of course, will arouse violent protest from Panama.

(10) *Revision of Monetary Agreements.* Panama has requested a revision of the Monetary Agreement of 1904 as modified by subsequent

exchanges of notes. Inasmuch as the present language of these agreements represents somewhat of a paternal attitude toward Panama, the Department agrees that a review is in order.

(11) *Commercial Treaty*. Panama suggests that an appropriate way for settling a number of matters which are claimed to afford unjust economic competition with Panamanian business would be through the negotiation of a commercial treaty. The United States would be glad to consider any suggestions made by Panama regarding the negotiation of a treaty of friendship, commerce and navigation which would have the effect of establishing commercial relations between the two Governments on a permanent basis. However, the commercial treaty which this Government would be disposed to negotiate would be along the lines of treaties of a standard type already negotiated with other countries. This Government would be unwilling that such a treaty contain provisions relating to special problems in our economic relations with Panama which are considered to be outside the scope of a commercial treaty.

(12) *Readjustment of Colón Corridor*. Panama has requested a substantial readjustment in the route of a road which passes through the Canal Zone and joins the Panamanian city of Colón with the Republic proper. The realignment as contemplated deviates considerably from the Corridor plan as set forth in the 1936 Treaty. A new convention between the two Governments will be necessary to modify legally the 1936 Treaty. In the meantime, the two Governments have effected an exchange of notes which state that the readjustment is desirable from the standpoint of both Governments and provides that work on the realignment of the Corridor may be undertaken pending the negotiation of a convention.

Panama has requested technical assistance in the planning and building of an overpass at Randolph Road (within Canal Zone jurisdiction) to connect the Trans-Isthmian Highway with the Colón Corridor. We have agreed to build this overpass provided Panama provides the necessary funds.

(13) *Realignment of Inter-American Highway around Rio Hato Air Base*. The Department feels that Panamanian complaints concerning Army interruption of traffic on the Inter-American Highway at the Rio Hato Air Base have been justified. The Army was requested to take immediate steps to re-route the Highway in such a way as to bypass the airstrip and thus to eliminate interference with Panamanian traffic. The Army had prepared to initiate measures to realign the Highway when the defense sites issue became so complicated. With the evacuation of all defense sites in Panama, this question may be academic.

(14) *Coordination of Radio Communications*. Panama has invited

the United States to furnish both general and private service radio communications for all commercial aviation on the Isthmus. It is important to the United States Army that there be one central communications control. Accordingly, the interested departments of the Government are endeavoring to find an arrangement whereby the Panamanian request can be acted upon favorably.

(15) *National Aviation Code.* The Panamanian Government has requested assistance in the drawing up of new civil aviation regulations for the Republic. Inasmuch as Panama's aviation regulations directly concern United States activities on the Isthmus, this Government is willing to cooperate, once an aeronautics agreement had been reached, by sending an expert to the Panamanian Government under Public Law No. 63.

(16) *Transfer of Cristobal Dock.* In connection with its plans to establish a free trade zone, Panama has asked for one of the Cristobal docks suitable for international navigation. It is believed that the Canal Zone authorities definitely object to such a transfer, since it would give rise to many complications in the control of the bay and dock area now under our exclusive administration.

(17) *Dock at Coiba.* The Panama Canal has expressed its willingness to construct at cost for Panama a dock at the Coiba penal colony.

(18) *Transfer of Cativá Naval Hospital to Panama.* Panama has been rather persistent in requesting that the Naval Hospital at Cativá be transferred to the Republic for Panamanian use, together with jurisdiction over the land on which it stands. The Navy Department just as persistently has taken the position that it has no intention of abandoning the use of the Hospital and has no interest in considering its transfer to Panama. The Department supports this position.

(19) *Telephone and Cable Circuits.* Panama has asked that the Army provide, in so far as military requirements permit, certain circuits in various existing telegraphic lines and cables. Before evacuation of the defense sites the United States had made available certain circuits and was willing to provide certain additional circuits consistent with military requirements.

(20) *Transfer of Paitilla Point to Panama.* Paitilla Point is no longer needed as a military reservation either for defense purposes or for the peacetime operation of the Canal. Accordingly, if the authority of the Congress could be obtained therefor, the United States would transfer to Panama free of cost all of its rights, title and interest in Paitilla Point.

(21) *Transfer to Panama of Tracts known as Aspinwall, Violette and Huerte San Doval.* Inasmuch as these land tracts are no longer needed for Canal Zone military purposes, the United States, with the



authority of its Congress would transfer to Panama free of cost all of its rights, title and interest in these three tracts..

(22) *Visa and Immigration Matters.* Panama has asked for an agreement with us for reciprocal issuance of visas to merchants and in general for border cooperation in immigration matters. The Department at an appropriate time will request the Congress for general legislation which will authorize the Secretary of State to negotiate bilateral or multilateral agreements relating to the movements of non-immigrants.

(23) *Proposed Radio Convention.*<sup>8</sup> During the negotiation of the 1936 Treaty the executive branches of Panama and the United States agreed on the provisions of the Radio Convention for the regulation of radio communications in Panama and the Canal Zone. The convention was ratified by the Republic of Panama but not by the United States Senate. This Government continues to feel the desirability of a convention of this nature and, accordingly, is preparing in draft form a new proposal which is to be submitted to Panama in due course.

#### *Other Panamanian Requests*

In addition to the foregoing, Panama has indicated that it wishes to discuss with the United States the items mentioned below. Panama has presented no detailed description of its desires and the definite scope of these requests is not understood. No consideration has been given to them to date. They are :

(1) Revision of conventions on extradition and other agreements existing today covering the surrender of persons wanted or pursued by police, judges or prosecuting attorneys of the Republic of Panama and of the Panama Canal, respectively ;

(2) Mutual assistance in the administration of justice between Panama and the Canal Zone. A revision of the existing policy regarding the admission into hospitals and asylums of the Republic of Panama and of individuals who work in the Canal Zone who are not Panamanians ;

(3) A revision of existing agreements on the use of hospitals and doctors in the Canal Zone by persons residing in Panama ;

(4) Negotiations of agreements regarding the cooperation of military forces and police of Panama with corresponding organizations of the United States, especially in the Canal Zone ; and

(5) Negotiation of agreement tending to avoid interference or difficulty of any nature between the broadcasting stations established in the Canal Zone and Panamanian broadcasting stations.

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<sup>8</sup> For previous documentation on the regulation of radio communications in Panama and the Canal Zone, see *Foreign Relations*, 1947, vol. VIII, pp. 967 ff.

*Miscellaneous Cooperation Already Extended*

During the past year the following Panamanian requests were agreed to and action was effected:

(1) The United States eliminated the 25% differential granted by the Panamanian Railroad Company in favor of cargoes from the United States consigned to the United States Government agencies in the Canal Zone. This differential was eliminated with the reservation that nothing in the agreement would prohibit the United States from reinstating this or any other differential if special conditions in the interest of the United States, not prejudicial to business interests of Panama, so warrant.

(2) *Construction of Tocumen Airport.* The assistance of United States engineers and equipment or the facilities of the Public Roads Administration were made available to Panama in order that the construction of the new international airport at Tocumen could be completed rapidly. Engineering assistance was provided on a reimbursable basis and road equipment on a rental basis. Administration of the project was in the hands of Panamanians.

(3) *Service of Agricultural Technicians.* The United States agreed to designate under Public Law No. 63 the services to Panama of technicians in various fields of agricultural science. Two of these experts have already been selected and one has gone to Panama. A third is to be found.

(4) *Coinage of Additional Silver Currency.* The United States agreed to coin for Panama one million balboas in silver currency provided Panama would purchase and deliver the necessary amount of silver to the Treasury mint.

*General Economic Policy Toward Panama*

The United States' economic policy toward Panama is based primarily on the Treaty of 1936. The policy in general is "to enable the Republic of Panama to take advantage of the commercial opportunities inherent in its geographical situation". This policy specifically is not to permit the establishment in the Canal Zone of private business enterprises other than those directly related to the Canal and to guarantee opportunity of employment and treatment in the Canal Zone to Panamanians on the same basis as to United States citizens.

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819.00/7-2148: Telegram

*The Ambassador in Panama (Davis) to the Secretary of State*

CONFIDENTIAL      URGENT      PANAMA CITY, July 21, 1948—11 a. m.

577. The Embassy has kept Dept currently informed of efforts by various factions involve US officials in local political affairs,<sup>1</sup> Embtel

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<sup>1</sup> Arnulfo Arias Madrid and Domingo Díaz Arosemena were candidates in the presidential election of May 9; although Arias claimed the largest popular vote, the Panamanian administration refused to concede him victory; the electoral jury declared Díaz Arosemena winner on July 30; President Enrique A. Jiménez remained in office until the inauguration of Díaz Arosemena on October 1, 1948.

558, July 14<sup>2</sup> and previous reports. The most recent example is proposal made by Arnulfo Arias yesterday to President in his interview reported Embtel 574, July 20<sup>2</sup> and published in last night's *Panama American*. It was to effect that the electoral jury invite the American, Argentine and Mexican Ambassadors to sit as a board to observe the vote count and decide points in dispute. According to press account President stated matter would be for jury decide. President has accordingly addressed proposal to jury, which will make reply this afternoon. Apparently the proposal is not being taken seriously by either the govt or the public. This Embassy's position is so well known to the officials and the press that no one has made any inquiry on the subject thus far, and Embassy believes suggestion will be rejected as inconsistent with the national dignity.

DAVIS

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<sup>2</sup> Not printed.

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819.00/7-2148 : Telegram

*The Ambassador in Panama (Davis) to the Secretary of State*

PRIORITY

PANAMA CITY, July 21, 1948—1 p. m.

579. Upon insistent request of local press for comment on PRA proposal (Embtel 577, July 20 [21]) I have issued following statement:

"The Embassy of United States has been asked to comment on the proposal appearing in yesterday's press as having been made by the directorate of one political party to the electoral jury that the diplomatic representatives in Panama of the US and two other countries be invited to act as observers of the deliberations of that body.

"In the absence of any official notification from Panamanian Government that the matter in question has been duly acted upon by appropriate authorities and of any specific request for the views of the US Government, this Embassy considers it inappropriate to express any opinion on the subject matter of the proposal. It feels that any such comment might properly be regarded as an intrusion in a purely domestic matter and therefore contrary to the widely known and well established policy of the US Government regarding non-intervention in the domestic affairs of the sovereign countries of this hemisphere. This Embassy attaches great importance to the complete and consistent implementation of this policy."

Above views have been communicated orally to my Mexican and Argentine colleagues who are in agreement therewith.

DAVIS



711.00/7-3048

*The Ambassador in Panama (Davis) to the Secretary of State*SECRET  
No. 480

PANAMÁ, July 30, 1948.

SIR: I have the honor to refer to the air mail letter of the Secretary of State dated July 2, 1948<sup>1</sup> enclosing a copy of the Department's June 1948 Policy Statement on Panamá, and as requested to submit the following comment and recommendations. Before discussing details, however, I wish to say that this mission considers the statement excellent in organization, directness and practical helpfulness. It is a most valuable summary and directive, which cannot but contribute materially to the handling of questions of policy relating to Panamá and the Canal.

Entire agreement is expressed with the importance attached to the need for winning the effective collaboration of the Republic of Panamá as a corollary to our basic policy of respect for the juridical equality and sovereignty of this country and non-intervention in its internal affairs. The promptness and finality of our action after the National Assembly disapproved the proposed defense sites agreement achieved two important results: it supplied convincing evidence that we really mean to respect this country's sovereignty, and it has tended to induce some feeling of responsibility on the part of those long accustomed to attack the United States for local political purposes.

An improvement in the general attitude toward the United States has been the net result. It is noteworthy that throughout the recent bitter political campaign<sup>2</sup> no major party made its appeal on an anti-American platform; and while it is too much to say that no criticism has appeared in the press, none of the leading newspapers has had a consistently anti-American attitude and none has indulged in campaigns designed to inflame public opinion against the United States or its policies. Although the American action after December 22, 1947<sup>3</sup> was an important factor in bringing about this improvement, there is no doubt that the deterioration in the international situation in general and recent happenings in nearby countries<sup>4</sup> in particular have had a sobering effect and have tended to discredit our political opponents. In fact one of our principal policy objectives, namely, the isolation of the Communists and other anti-American elements in Panamá has been achieved to a large degree; and while leftist groups un-

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<sup>1</sup> Not printed.

<sup>2</sup> See telegram 577, July 21, p. 657.

<sup>3</sup> The National Assembly unanimously rejected the defense sites agreement on December 22, 1947.

<sup>4</sup> For documentation on this subject, see pp. 153 ff.

friendly to the United States are still strong in University and labor circles and represent a potential danger, they are quiescent for the time being, sensing that the time is not opportune for them to gain public support for attacks against the policies of the United States.

High officials of the Government, newspaper editors and other prominent Panamanians have taken occasion to express the view publicly that cooperation with the United States is necessary and desirable, and that influences to the contrary are inimical to the best interests of both countries. There is also a quite general recognition among the leaders that the lack of realistic cooperation in the defense of the Canal might have most serious consequences. This view needs to be stressed further, however, in order to become a part of the thinking of the whole population, and so make more difficult future appeals to old fears and prejudices by the Communists.

Of less importance but still of some significance as indicative of better feeling, I might cite the evidences of public affection and esteem shown General Willis D. Crittenger<sup>5</sup> upon his departure from Panamá in June, and the extremely cordial welcome extended to me as the newly arrived American Ambassador. The reaction to the trip made to the Interior, at the Department's suggestion, to visit the National Agricultural Institute was surprisingly favorable, resulting in much public notice, even the at times severely critical *Panamá American* of Harmodio Arias<sup>6</sup> making the trip the subject of complimentary editorial comment. The stressing of the importance of agriculture to the basic economy of Panamá and our disposition to be helpful in the way of supplying technical advice struck a responsive cord and did much to divert public opinion from negative complaints to more constructive channels. The approval by the Export-Import Bank of the Panamanian application for credit for the hotel project<sup>7</sup> was also timely and constructively helpful, and the beneficial effect was intensified by the manner in which it was announced. The Embassy was given the opportunity to inform the Foreign Minister and the President<sup>8</sup> of this approval personally, and to make a public statement for the press.

The most important single problem of course concerns arrangements with Panamá necessary for the protection of the Canal. In view of

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<sup>5</sup> Commanding General, Caribbean Defense Command.

<sup>6</sup> Former President of Panama.

<sup>7</sup> In instruction 145, October 19, 1948, not printed, the Acting Secretary of State transmitted a copy of the agreement signed September 17, 1948 between Panama, Hoteles Interamericanos, S.A., and the Export-Import Bank of Washington establishing a line of credit of \$2 million in favor of the Hotel Company to finance the purchase in the United States of materials, equipment and services required for the construction of a hotel in Panama (811.516 Export-Import Bank/10-1948).

<sup>8</sup> Ernesto Jaen Guardia, and Domingo Díaz Arosemena, respectively.

the critical international situation, it is considered advisable that the United States Government determine at an early date but without any public announcement whatsoever what facilities would be needed from the Republic of Panamá in the event an outbreak of hostilities should take place or become imminent. It would be desirable to have such a determination made at a high policy level, and it should be reasonable. It would be advantageous to have adequate preparation for negotiations in advance and to have ready for possible use statements for publication if needed. Instead of stressing the joint obligation of both Governments under Article II of the General Treaty of 1936, Panamá might prefer to place greater emphasis on its obligations as one of the signers of the Rio de Janeiro Treaty of Reciprocal Assistance.<sup>9</sup> It might also prove quite helpful in this connection if nearby countries were to take a serious interest in the practical aspects of the defense of the Canal and the effect on them were the Canal to be damaged or destroyed. For example, it might be productive of good results if Colombia were to raise the question whether the defending forces would be able to detect the approach of a hostile force from the Pacific or oppose it in time with fighter planes without radar stations and landing strips at some distance from the Canal itself. In this connection reference is made to despatch No. 448 of July 16, 1948 to the Department from the American Embassy at Bogotá.<sup>10</sup>

Although public attention has been distracted to some degree from the question of labor relations, this still remains a most troublesome problem and one on which critics feel we are most vulnerable. It is believed that the problem should be reviewed in the light of recent developments with a view to determining precisely the degree to which present practices may be at variance with our announced policy in implementation of the General Treaty of 1936, and that the appropriate authorities should be afforded an early opportunity to state what steps have been and are being taken to carry out the letter and spirit of our commitments. At the same time the aggressive attitude by a section of the Panamanian press which places its own interpretation on the pertinent treaty provisions and accuses the United States of violating its commitments should be opposed by appropriate official statements. As to any respects in which there may be a clear failure to carry out our commitments, however, it is believed the Department should take the position either that they should be fully respected or that those responsible for any adverse decision should take the onus for initiat-

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<sup>9</sup> For the Inter-American treaty of reciprocal assistance, signed at Rio de Janeiro, September 2, 1947, see Department of State Treaties and Other International Acts Series No. 1838, or 62 Stat. 1681.

<sup>10</sup> Not printed.



ing steps to have denounced the provisions with which the Government will not comply. A firm attitude should continue to be taken toward the recurrent attempts by pressure groups to secure passage of legislation inconsistent with and directly contrary to the provisions of existing treaties. As the Department knows these do great harm. Serious criticism of the American Government would have resulted had such legislation not been averted this year, and even as it was the attempt to enact it resulted in the most serious criticism that has taken place during the past six months.

As to the El Encanto and other claims, it was made clear to the Foreign Minister at the time he was informed of the approval of the hotel credit that we would wish Panamá at its own initiative to take favorable action on the claims of long standing not because of any pressure or representations but because it is just and in the best interests of both countries. On a later occasion the Foreign Minister indicated that he had been studying these claims with a view to making a recommendation to the incoming General Assembly that it approve the proposed claims convention and appropriate funds to settle the balance due from the Republic of Panamá. He indicated that because of the recent experience with the National Assembly as now constituted it would probably not be feasible for the President to call it into special session to act on this or any other matter. The Foreign Minister was given to understand that while anything the Administration might do in an attempt to bring about the early settlement of these claims would be appreciated, the United States Government did not wish to conclude an agreement that did not provide at the same time for funds to cover the entire claim.

As to an air agreement, the present Administration is especially anxious to see the Tocumen Airport in full operation before October 1948. I have proposed that a bilateral air agreement be concluded as soon as possible and that all pending matters in that connection, such as communications facilities between the Canal Zone and Tocumen Airport and the use of the latter port by American flag lines, be resolved at the same time. A proposed draft agreement has been cleared with representatives of the Armed Forces and the Panama Canal administration, and the approval by the Department of suggested changes is now being awaited. It is hoped a tentative draft may be submitted to the Panamanian authorities in the very near future.

It is possible that the Executive Order preventing the direct importation of alcoholic beverages into the Canal Zone went too far and perpetrated an injustice on the personnel of the Armed Forces and the Panama Canal administration. However that may be, the ill effects of withdrawing such a concession when once made should be carefully evaluated, and if a change is contemplated it should be preceded by

appropriate discussions with the Panamanian authorities and the announcement of the change should be timed to reduce to a minimum the ill effects, which are inevitable.

The only part of the June policy statement with which this Embassy is inclined to disagree is the sentence on page 5 to the effect that the increased cordiality of Panamá toward Argentina has been inspired in part by a desire "of Panamá to develop a counter-balance to United States commercial influence". The officers at this mission are unanimous in expressing confidence in the friendliness of the President and his present Cabinet, and in feeling that their attitude has been very correct as far as relations with both the United States and Argentina are concerned. The initiative in recent moves has been taken by Argentina, and the Panamanian officials have given the officers of this Embassy no reason to feel that they are seeking any counter-balance to American commercial influence. The Embassy has taken the attitude that good relations between all the American Republics are desirable and that there is no reason why the investment of Argentine funds in useful Panamanian enterprises should be regarded as contrary to the interests of either the United States or Panamá. There has been some stress laid on economic as well as political and cultural relations with the so-called Gran Colombia countries, but the Embassy has detected a quite definite realization on the part of the Panamanian Government that it would be impractical and undesirable for Panamá to adopt the proposed economic program of this group, particularly in so far as the customs union and certain other economic projects are concerned.

In conclusion it is recommended that every effort be made to retain the gains since last December and consolidate official and public confidence in our policies and in the officials charged with their implementation. To this end it is proposed that a special effort be made to most [*meet*] issues promptly and adequately, that a frank and open policy with the press be followed, that acts or pronouncements inconsistent with our basic policy be avoided, that care be exercised to accord Panamanian officials the recognition due them because of their positions, that the United States Government continue to take a constructive interest in the basic economic problems of Panamá, supplying experts to assist in improving agricultural production, etc., and that advantage be taken of the present improved relations to dispose of as many as possible of the pending problems and points of potential future friction. The problems listed roughly in the order of the priority given them at this mission are as follows:

1. Aviation Agreement, establishment of communications between Canal Zone and Tocumen Airport, and arrangements for American flag lines to utilize latter.

2. Settlement of El Encanto and Malambo claims.
3. Disposal of remaining obligations under Twelve Points Agreement by negotiation of substitutes or by initiation of action to comply with the following undertakings:

- (a) Tunnel under or bridge over the Canal.
- (b) One-third maintenance cost for highways used habitually and frequently by Armed Forces.
- (c) Panamá Railway Station.
- (d) Petroleum pipe line right-of-way in Balboa.

4. Access to military installations on islands of Taboga and Taboguilla.

5. Ownership of certain buildings along the Rio Hato road.

6. Formalization of agreement to realign Colón Corridor.

As to internal problems, it is believed those representing the greatest danger from a long-range point of view are the generally unsatisfactory situation of the small farmers, and the emotional stress resulting from the race problem, particularly the antipathy between the West Indian Negro element and the remainder of the populace. The latter is especially explosive and there is always danger that political strain may provide Communists and other disruptive forces an opportunity to touch off disorders which might become extremely violent. As to the first, present measures to improve agricultural production as a whole should improve the lot of agricultural laborers. As to the latter problem, it is believed a feeling of responsibility on the part of the Government and people for the maintenance of order is being developed, and that fear of uncontrollable disorders has exercised a powerfully restraining influence on the political factions during the recent elections and post-election difficulties.

Respectfully yours,

MONNETT B. DAVIS

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**WITHDRAWAL OF UNITED STATES ARMED FORCES FROM DEFENSE SITES; POSSIBILITY OF RENEWED NEGOTIATIONS REGARDING DEFENSE SITES; AND PLANS FOR SECURITY OF THE CANAL ZONE<sup>1</sup>**

711F.1914/5-1548

*The Ambassador in Panama (Hines) to the Panamanian Minister of Foreign Affairs (De Diego)*

No. 566

PANAMÁ, February 16, 1948.

EXCELLENCY: I have the honor to refer to my Note No. 533 of December 31, 1947,<sup>2</sup> regarding the rejection by the National Assembly of Panama of the Defense Sites Agreement signed on December 10, 1947 and informing the Panamanian Government that evacuation of

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<sup>1</sup> For previous documentation on rejection by the Panamanian Assembly of the Defense Sites Agreement, see *Foreign Relations*, 1947 vol. VIII, pp. 881 ff.

<sup>2</sup> Not printed.



the remaining Defense Sites in Panama was under way. Reference is also made to the Notes exchanged between our two Governments with regard to the termination date of the Defense Sites Agreement of May 18, 1942,<sup>3</sup> namely, the Foreign Office's Note D.P. No. 3235 of August 31, 1946,<sup>4</sup> and the Embassy's Note No. 285 of October 12, 1946.<sup>5</sup>

As Your Excellency is aware, that agreement and its implementation, through the full cooperation of the two Governments, assured the effective protection of the Canal and played an important part in bringing about the successful termination of hostilities. Although my Government has maintained the position, as set forth in its Note of October 12, 1946, that it continued to be entitled, under the express terms of the 1942 Agreement, to the use of the defense sites until one year "after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect," it has nevertheless taken the necessary measures to withdraw from those few remaining sites which had not already been returned to Panama under the provisions of the Agreement. These measures, taken in conformity with the understanding expressed in Article XIII of the 1942 Agreement, were adopted in deference to Panamá, following the action of its National Assembly on December 22, 1947.<sup>6</sup>

Inasmuch as the evacuation of the Defense Sites has now been completed, I have the honor, under instructions from my Government, to inform Your Excellency that the Government of the United States of America now considers the Agreement terminated and no longer in effect.

Please accept [etc.]

FRANK T. HINES

<sup>3</sup> Department of State Executive Agreement Series No. 359.

<sup>4</sup> For text of note, see *Foreign Relations*, 1946, vol. XI, telegram 554, September 1, p. 1103.

<sup>5</sup> The text of this note was provided Ambassador Hines in telegram 499, September 24, 1946. Hines informed the Secretary of State of its delivery in his telegram 656 from Panama, October 12, 1 p. m.; see *Foreign Relations*, 1946, vol. XI, pp. 1115 and 1123, respectively.

<sup>6</sup> See *Foreign Relations*, 1947, vol. VIII, pp. 945 ff.

711F.1914/2-1948: Telegram

*The Ambassador in Panama (Hines) to the Secretary of State*

NIACT URGENT

PANAMA CITY, February 19, 1948—2 p. m.

CONFIDENTIAL

113. Panamanian Government has no objection release to press of our note (Deptel 105, February 16<sup>1</sup>), but will at same time give publicity to its reply thereto, reading as follows:

"Mr. Ambassador: I have the honor to refer to Your Excellency's note No. 566 of February 16, 1948, by which you have been good enough

<sup>1</sup> Not printed.

to communicate to me that the government of the US of America, having evacuated all of the defense sites which had been ceded by reason of the recently terminated international conflagration, considers the agreement of May 18, 1942, terminated and of no future effect.

"The expressions contained in Your Excellency's note have pleased my government in the sense that the agreement and its execution, through the wholehearted cooperation of both governments, assured the effective protection of the Panama Canal and had an important part in the victorious termination of hostilities. On that occasion, Panama offered loyally and decisively its full cooperation for the defense of this important key to continental security, and my government reiterates at this time its irrevocable intention to cooperate, with all the means within its reach and within its contractual obligations, in the effective protection of this inter-oceanic route, in order to thus assist in the preservation of the democratic ideals common to us both.

"Without referring to the difference of interpretation concerning the termination date of the agreement of May 18, 1942, I wish to inform Your Excellency that my government has taken due note of the statements of the government of the United States with regard to the termination of the above-mentioned agreement.

"I take this opportunity to reiterate to Your Excellency the assurances of my highest and most distinguished consideration.

"Mario de Diego, Minister for Foreign Affairs."

Under the circumstances, Embassy believes above reply could with difficulty have been couched in more acceptable terms. Leaving to Department's discretion publication in US of Panamanian note, I recommend advising Foreign Office that simultaneous release our note will be made tomorrow afternoon. This procedure was approved by President Jimenez at dinner he gave me last night.

Please instruct soonest.<sup>2</sup>

HINES

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<sup>2</sup> The exchange of notes between the United States and Panama, February 16 and 20, was released to the press on February 20, 1948. In despatch 308 of May 21, 1948, not printed, the Embassy in Panama transmitted a copy of Foreign Office note D.P. 844 dated May 15, 1948 acknowledging receipt of United States Treasury check of May 12 for \$39,307.25 which represented final payment due the Panamanian Government for occupation of defense sites in the Republic by the Armed Forces of the United States (711F.1914/5-2148).

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819.00/4-2648: Telegram

*The Chargé in Panama (Hall) to the Secretary of State*

SECRET      PRIORITY

PANAMA CITY, April 26, 1948—5 p. m.

321. Embassy anticipates receiving tomorrow from Governor Canal Zone,<sup>1</sup> with approval of CominCarib,<sup>2</sup> request that Panamanian Gov-

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<sup>1</sup> Francis K. Newcomer.

<sup>2</sup> General Willis D. Crittenger, Commanding General, Caribbean Defense Command.

ernment be approached with view to its authorization of use of Canal Zone police in plainclothes for protection of new Cristobal district during coming elections.<sup>3</sup>

Request will be based on location within that area of large number of Americans essential for operation of Canal and who fear to leave their dependents during working hours with allegedly inadequate Panamanian police protection. There is also involved large amount of US Government owned housing, Washington Hotel, Cristobal High School, and Colon Hospital.

Despite chronic complaints of American dwellers this district has lately been receiving satisfactory police protection from Panama. But there is little doubt that the maintenance of this protection during elections cannot be counted on.

Appeal to Foreign Office might be made on basis of Article 10 of 1936 treaty.<sup>4</sup> However, I gathered in brief conversation with Secretary Marshall twenty-third that we should by no means consider intervention of any kind unless warranted by circumstances and until we are satisfied Panamanian Government has exhausted all measures at its command. Request could also be made confidentially and informally and would probably be refused for political reasons and because of our recent refusal to sell armored cars to Panamanian Government. Even if refused, we might expect, as result of this representation, continued and perhaps improved protection by Panamanian police.

Please instruct urgently.

HALL

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<sup>3</sup> Presidential elections, May 9.

<sup>4</sup> For the general treaty of friendship and cooperation, signed at Washington March 2, 1936, see Department of State Treaty Series No. 945, or 53 Stat. 1807.

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819.00/4-2748: Telegram

*The Chargé in Panama (Hall) to the Secretary of State*

SECRET

PANAMA CITY, April 27, 1948—5 p. m.

329. In case of riot or revolution attending elections, probability of which will be discussed in report tomorrow, question of possible US intervention will inevitably arise. From conversation with Secretary Marshall (Embtel 321, April 26) I understand that while we will not permit conditions to reach a stage that could produce another Bogotá, we will not pull anyone's chestnuts out of the fire to maintain a government in power.

Crittenberger has had a brief (which I have not seen) prepared for him by his Judge Advocate, Colonel Miller, covering the possi-



bility of intervention after consultation with Panama, as foreseen by Article 10 of the 1936 treaty, and of emergency intervention under the provisions of paragraph three of the notes exchanged by US and Panama on February 1, 1939,<sup>1</sup> the latter as interpreted by Crittenberger, to take place only under instructions of President Truman.

Colonel Miller called on me today to ask (1) whether preliminary conversations with Panama could not take place anticipating consultation, and (2) what would be my attitude in the case of extreme emergency, with regard to the note cited.

To first question I replied negatively because (a) it would give Panamanian Government a false sense of security and not lead it to extend its full efforts to reestablish order, and (b) the administration could use our request as an excuse to declare a state of emergency and postpone elections, leading to charges against US of intervention in internal affairs.

To second question I answered that I intended, with the help of Crittenberger, to arrange in case of need thereof for evacuation of all American citizens to Canal Zone; to lodge those unable to reach Zone in the residence; to maintain communications and operate Embassy with skeleton male staff indefinitely; to keep Department informed constantly of conditions developing and, in case of breakdown of communications and extreme urgency endangering Canal, to request Crittenberger to take adequate measures.

I explained to Colonel Miller that I believe our position may well be disagreeable if time or facilities do not permit us to request instructions from Washington, since the primary responsibility for deciding on intervention might rest on me, and the ultimate responsibility on Crittenberger for effecting the same.

The Department's comments would be much appreciated.

HALL

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<sup>1</sup> Department of State Treaty Series No. 945.

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819.00/4-2748 : Telegram

*The Secretary of State to the Embassy in Panama*

SECRET

WASHINGTON, April 29, 1948—2 p. m.

338. It is assumed that military authorities are in position to protect Canal Zone and safeguard Canal itself whatever internal situation may develop in Panama (urtel 329, Apr 27).

It would be difficult for US to maintain that Art X of 1936 treaty and paragraph 3 of notes exchanged by US and Panama on Feb 1, 1939 contemplated intervention in instance of internal unrest, however

great, as distinct from external threat or aggression. Will be recalled that paragraph 3 of Art VII of Convention of 1903<sup>1</sup> giving US right and authority maintain public order in Panama was abrogated by Art VI paragraph 2 of treaty of 1936.

Armed intervention on part of US could have extremely serious repercussions throughout hemisphere and in effect jeopardize work of years in strengthening inter-American system.

In spite of above, if in opinion of Emb and Crittenberger some action on our part becomes essential, Dept should first be consulted. If impossible consult none but purely defensive measures should be taken. Subject reservation previous sentence Dept in complete accord paragraph 4 and 5 telegram under reference.<sup>2</sup>

MARSHALL

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<sup>1</sup> Department of State Treaty Series No. 431.

<sup>2</sup> In telegram War 80941, April 30, not printed, the text of this telegram (excepting the final sentence) was transmitted to General Crittenberger by the Director of Plans and Operations, General Staff, United States Army (General Wedemeyer). The last paragraph of War 80941 stated: "Dept Army emphasizes desirability of prior consultation with Dept of State should not however preclude your taking appropriate and timely defensive measures when in your opinion emergency so justifies" (819.00/4-3048). See memorandum of April 30 on this subject, p. 670.

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819.00/4-2648 : Telegram

*The Secretary of State to the Embassy in Panama*

SECRET US URGENT

WASHINGTON, April 29, 1948—6 p. m.

341. Dept agrees with Emb that outright request for assignment Canal Zone police in New Cristobal district during elections would be unwelcome to Panamanian Govt urtel 21 Apr 26, 1948, especially view our recent decision re sale armored cars. Dept believes Emb should confine its approach to Govt to request for additional Panamanian police protection. Emb should endeavor phrase its request so that Govt, in event it replies insufficient police available to increase New Cristobal force, may come forward with suggestion that Panamanian contingent in New Cristobal district be supplemented by police from Canal Zone. Please keep Dept informed.<sup>1</sup>

MARSHALL

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<sup>1</sup> The Chargé in Panama (Hall) stated in telegram 341, April 30, 7 p. m., not printed: "With complete cooperation Caribbean Command, which I commend, all measures for protection of US citizens and continued operation of Embassy will be in effect by tomorrow noon and will be reported upon at first opportunity" (819.00/4-3048), and, in telegram 342, the same date, not printed: "Foreign Minister approached this noon and government now promises to double present police force assigned New Cristobal. Comptroller General has authorized necessary funds" (819.00/4-3048).

819.00/4-3048

*Memorandum to the Secretary of State, by the Deputy Director of the Office of American Republic Affairs (Woodward)*<sup>1</sup>

TOP SECRET

[WASHINGTON,] April 30, 1948.

Subject: Defense Plans of General Crittenger in Canal Zone and Possibly Panama.

General Crittenger has summarized his apprehension concerning the possibility of political disturbances in Panama in the attached telegram.<sup>2</sup> He feels that such disturbances might so endanger the Canal that it would be necessary for him to move United States forces into Panamanian territory under the provision of Article X of the 1936 Treaty. Article X provides "In case of an international conflagration or the existence of any threat of aggression which would endanger the security of the Republic of Panama or the neutrality or security of the Panama Canal, the Governments of the United States of America and the Republic of Panama will take such measures of prevention and defense as they may consider necessary for the protection of their common interests". The authority of the United States to intervene in Panamanian territory to maintain public order, granted by the 1903 Treaty, was specifically abrogated by the 1936 Treaty.

The Department's view on the possibility of moving United States forces into Panamanian territory was covered in the Department's telegram no. 338 of April 29, 1948, in reply to a query from the Embassy. The Department of the Army has repeated our telegram to General Crittenger stating that the Department of the Army is in accord with this position of the Department of State and adding that the message does not prevent the taking of defensive measures.

This memorandum is sent to you in the belief that you will be interested in knowing that the Department of the Army has expressed this agreement with the Department of State.

ROBERT F. WOODWARD

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<sup>1</sup> Initialed by the Secretary of State: "G[eorge] C. M[arshall]". Handwritten marginal note, unsigned: "Mr. Lovett has seen."

<sup>2</sup> Not printed.

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711F.1914/10-948

*Press Statement on Defense Sites, by the Ambassador in Panama (Davis)*<sup>1</sup>

PANAMÁ, May 25, 1948.

"I am convinced that the basic interests of the Republic of Panamá and of the United States of America do not conflict, and that the

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<sup>1</sup> Transmitted to the Department under covering despatch 605, October 9, from Panama, printed on p. 676.



security of this hemisphere depends to a large extent on the success of our relationships right here on the Isthmus. Our task therefore is a real challenge to the sincerity of understanding of the officials and the citizens of our two countries. Recognizing fully the seriousness of the responsibilities which rest upon us, I shall put forth every effort to promote and maintain that spirit of cooperation and friendly collaboration which made the construction of the Canal possible and which has marked our long and close association.

"As to the action of the Panamanian National Assembly last December in rejecting the defense sites agreement which had been signed by the Executive branches of the two countries, the United States Government accepted immediately and without question the wishes of the people of Panamá as expressed by their representatives in the National Assembly, and withdrew from the areas which remained in use under the provisions of the former agreement. Since that date the United States Government has taken no further steps with respect to defense sites, and I have no instructions to reopen negotiations. It is the basic policy of my Government to respect the sovereign will of other nations and the action taken in this instance has been in keeping with that policy.

"The protection of the Canal is a practical matter that is a joint responsibility of our two Governments under the Treaty of 1936. Hence both countries have a common interest to be served which will cause them to consult together and adopt the measures that are necessary. I am confident therefore that public opinion in both countries will support such measures as our Governments may determine to be essential to insure the proper maintenance and protection of this waterway, which is of such vital importance to the security and well-being not only of our two nations but also of the entire hemisphere."

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811F.812 Protection/5-2548

*The Secretary of the Army (Royall) to the Secretary of State*

TOP SECRET

WASHINGTON, May 25, 1948.

DEAR MR. SECRETARY: The current unrest in Central America which is allegedly partly due to communistic activity coupled with the apparent irregularity of action of Russian ships passing through that area has aroused considerable concern for the security of the Panama Canal. General Crittenberger has felt obligated on occasion to invoke his wartime powers with respect to the security of the Canal in order to inspect Russian ships prior to entry into the Canal and to keep them under surveillance while in the area.

Recently<sup>1</sup> the War Council considered the question of searching vessels before they pass through the Canal. The decision reached was to authorize the Department of the Army at its discretion to search all non-American-owned vessels prior to passage through the Canal, the degree, character, and frequency of inspection or search of the vessels of any particular nation to be a matter for the discretion of the Department of the Army or of the appropriate commander. It was recommended that before this decision be implemented, I clear any general policy with you.

Therefore, I would appreciate an opinion as to whether or not the exemption of American-owned vessels from inspection is in violation of the Hay-Pauncefote Treaty.<sup>2</sup> Also, as to whether or not, in your opinion, the possible political repercussions from this contemplated action would be so serious as to outweigh the security value to be gained by it.

Sincerely yours,

KENNETH C. ROYALL

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<sup>1</sup> May 4, 1948.

<sup>2</sup> Department of State Treaty Series No. 401, or 32 Stat. (pt. 2) 1903.

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811F.812 Protection/5-2548

*The Secretary of State to the Secretary of the Army (Royall)*

TOP SECRET

WASHINGTON, June 4, 1948.

MY DEAR MR. SECRETARY: I have received your letter of May 25, 1948 requesting this Department's opinion whether American owned vessels transiting the Panama Canal may be exempted from inspection without violating the Hay-Pauncefote Treaty.

It is the Department's opinion that the exemption of American owned vessels from inspection would probably result in representations by the British Government on the basis of the Hay-Pauncefote Treaty. In any event, this Department believes that we would encounter serious legal and political difficulties if we applied inspection measures to British and other vessels and exempted American vessels transiting the Panama Canal.<sup>1</sup>

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<sup>1</sup> In a memorandum of June 28, 1948 to Mr. W. Tapley Bennett, Jr., of the Division of Central America and Panama Affairs, not printed, Mr. Bryton Barron, Assistant for Treaty Affairs, Office of the Legal Adviser, indicated that the treaty staff confirmed its approval of the statements made in Secretary Marshall's letter of June 4, 1948 to Secretary of the Army Royall and cited Article III of the treaty between the United States and Great Britain to facilitate the construction of a ship canal, signed at Washington on November 18, 1901 (Hay-Pauncefote treaty, Department of State Treaty Series No. 401, or 32 Stat. (pt. 2), 1903); Article XVIII of the Isthmian Canal convention with Panama, signed at Washington on November 18, 1903 (Treaty Series No. 431, or 33 Stat. (pt. 2), 2234); and Article X of the general treaty of friendship and cooperation between the United States and Panama, signed at Washington on March 2, 1936 (Treaty Series No. 945, or 53 Stat. (pt. 3), 1807).

The degree, character, and frequency of inspection or search of the vessels of any particular nation, or of any particular vessel, should be subject to the exercise of reasonable discretion by the Department of the Army or the Commander in the Canal Zone. While it might be necessary in practice to make what could be little more than a *pro forma* search of American vessels, a somewhat more thorough search of British and other friendly vessels and a thorough search of Soviet and satellite vessels, it is the view of this Department in principle that the regulations would have to be the same.<sup>2</sup>

Sincerely yours,

G. C. MARSHALL

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<sup>2</sup> In A-499, July 20, 1948 to the Department, not printed, Ambassador Davis reported that the local press had published figures the night before to the effect that only 23 Russian vessels had transited the Canal during the fiscal year just ended (S11F.S12 Protection/7-2048).

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711F.1914/9-848

*Memorandum of Conversation, by the Director of the Office of  
American Republic Affairs (Daniels)*

SECRET

[WASHINGTON,] September 8, 1948.

Yesterday Ambassador Vallarino said he wished to talk to me confidentially. Accordingly, I dropped by his Embassy residence late yesterday afternoon. Among other matters he broached the question of the defense sites in Panama. He said it would be fine if he and I could work out a new formula permitting a "settlement" of this problem. He suggested as a possible formula a five-year lease on the bases, including Rio Hato, with five-year renewals to be agreed by both parties; and a United States credit to finance the construction of a military highway from the Canal Zone, to, I think, Rio Hato, David and the Costa Rican border. He seemed to think that through some sort of "gentleman's agreement" that credit might subsequently be diminished or cancelled, although without direct reference to the defense sites arrangement.

I thanked Ambassador Vallarino for his frankness and manifestation of confidence in talking to me on this important matter. I said I shared his hope that there would always be full agreement between Panama and the United States in regard to their joint responsibilities for the defense of the Canal. I furthermore expressed the following views:

- 1) That Panama, as well as the United States, shared responsibilities for maintaining adequate defense of the Canal, including cooperation in military matters, adequate bases, etc.

- 2) That I did not consider these matters a subject for bargaining



in return for credits or other economic or commercial benefits to Panama.

3) That I was afraid Panamanian public opinion had been misled in regard to the foregoing, and I would welcome the time when public men in Panama might clarify and explain the joint responsibilities of the two countries in line with the provisions of the 1936 treaty.

4) That the United States was naturally desirous of cooperating with Panama in economic matters the same as it desires to do with other American republics; and that I believe adequate evidence had been given of this policy. In this connection I referred to the recent Export-Import Bank credit for a hotel in Panama.<sup>1</sup> I pointed out that I had for a short time hesitated to express my own approval of this credit because of the still unsettled El Encanto claim,<sup>2</sup> but that at no time had it occurred to us to associate it with our broad responsibilities and those of Panama under the 1936 treaty. (Ambassador Vallarino indicated in passing that he favored a settlement of the El Encanto claim and understood that it was about to be provided for by including a corresponding appropriation in their budget.)

5) I said that the five-year limit on a major investment in Rio Hato had been considered by our responsible officials as too short a time to justify a major expenditure which might run into millions of dollars. I said it seemed logical to me that in such a case it would be reasonable to provide unquestioned security of tenure for a longer period of time, as had been agreed by the two Governments before the Panamanian Legislature took a different view. I said I was not aware that opinion in the State Department or the Service Departments had changed in this regard. I said I failed to understand why questions of sovereignty or dignity, etc., should arise because of a few years difference in the lease due to purely practical considerations, involving grave responsibilities on the part of officers responsible for expenditure of official funds.

6) With reference to Ambassador Vallarino's suggestion that he and I discuss the matter further in an effort to reach a new formula, I said I would be very glad to consult with a few people and have a further conversation with him. I said that it would afford me great pleasure to reach an understanding with Panama within the limits of the policy set forth above. I suggested that our conversations be maintained secret and not divulged to very many at this time, in order to avoid premature and unwise speculation and possibly agitation. Ambassador Vallarino agreed.

Before leaving I told the Ambassador that I planned to discuss his initiative with Mr. Barber and Mr. Bennett<sup>3</sup> of my office, and General

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<sup>1</sup> On July 21, 1948 a credit of \$2,000,000.00 was authorized by the Export-Import Bank for construction material, equipment, and services for Hoteles Interamericanos (Republic of Panama).

<sup>2</sup> See memorandum by the Assistant Chief, Division of Central America and Panama Affairs (Wise), January 20, 1948, p. 647.

<sup>3</sup> Willard F. Barber, Chief, Division of Central America and Panama Affairs; William Tapley Bennett, Jr., Area Specialist, Division of Central America and Panama Affairs.

Crittenberger. This was quite satisfactory to Ambassador Vallarino.

*Comment:* Ambassador Vallarino said that he had no instructions to initiate this discussion of defense sites. Whether or not this is true, I formed the impression that he would consider it useful to him to work out some sort of a deal here in Washington, as contrasted with the usual procedure of handling such matters between our Embassy in Panama and the Panamanian Government. This view was substantiated by his expressed willingness to make a quick trip to Panama with any mutually agreed formula. I see no reason for refraining from discussing this matter with Ambassador Vallarino, but believe that Ambassador Davis at Panama should be kept fully and currently informed to avoid the slightest possibility of confusion or crossed wires.

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810.20 Defense/9-3048 : Telegram

*The Ambassador in Panama (Davis) to the Secretary of State*

SECRET

PANAMA CITY, September 30, 1948—11 a. m.

789. At request of Commander in Chief Caribbean<sup>1</sup> Embassy approached Minister Gobierno in order ascertain what Panama is prepared to do, with regard to subversive persons and possible attempts at sabotage, in event outbreak of hostilities. Meeting was subsequently arranged between Chief of Staff Caribbean, Minister Gobierno, high Panamanian police officers and representative of Embassy at which time Panamanian officials gave categorical assurances of complete cooperation.

In accordance with procedure followed at outbreak of last war, Panamanians agreed to incarcerate immediately all persons deemed dangerous by Caribbean command. All non-Panamanians will be turned over to US custody. . . .

Our military authorities were well pleased with result of these interviews.

DAVIS

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<sup>1</sup> Ambassador Davis reported in telegram 844, November 1, 9 a. m., that the Commander in Chief, Caribbean Command (Ridgway) had expressed an interest, in view inauguration new President on October 1 and appointment of new Cabinet, in the attitude of the then Minister of Gobierno on this subject. Ambassador Davis stated: "Accompanied by Chief of Staff, Caribbean, I called upon Minister of Gobierno and high Panamanian police officers this morning. The minister gave assurances of complete willingness his Ministry and Panamanian Government to cooperate in every way in the interest of security of Canal, and confirmed details of understanding reached with his predecessor." (810.20 Defense/11-148)

711F.1914/10-948

*The Ambassador in Panama (Davis) to the Secretary of State*SECRET  
No. 605

PANAMÁ, October 9, 1948.

SIR: I have the honor to refer to earlier correspondence regarding the possibility of reopening the question of defense sites because of the international situation, and to recommend that, unless the military authorities consider it essential to national defense to establish additional military areas in the Republic of Panamá in the near future, the Department release in Washington or through this Embassy a statement to the effect that the United States has no immediate intention of reopening negotiations for defense sites in Panamanian territory. The statement might take the form of an amplification of that made upon my arrival last May, a copy of which is enclosed <sup>1</sup> for convenient reference. The timing of the release of this statement should, I believe, be left to my discretion and should occur whenever the Panamanian Government officially or publicly broaches the subject.

Ever since the rejection by the National Assembly last December 22 of the defense sites agreement negotiated with the United States, this question has been treated in Panamá as a political issue. Following the adverse action by the Assembly, the opposition to the Jimenez Administration claimed that the United States Government would not be disposed to consider negotiating another agreement with "the weak Administration in power." It will be recalled that Arnulfo Arias, after his official candidacy was announced, capitalized on "his willingness to cooperate with the United States and reopen negotiations for defense sites immediately after he became President." More recently, following the official announcement of the results of the elections, the incoming Díaz Administration also has been stressing its desire to resume forthwith negotiations for a satisfactory settlement of the defense matter, with "compensations", of course. President Díaz has himself so indicated to me personally and to a member of my staff. Probably because Panamá's economy is rapidly deteriorating, the belief is growing that it is now necessary for Panamá's economic salvation and the maintenance of cordial relations with the United States to negotiate an agreement as soon as possible after October 1.

. . . . .

If our Government does not intend to renew negotiations for new defense sites at this time, it would seem desirable to say so publicly and now, in order to disabuse the Government of Panamá and the Panamanian people of any false hopes they may entertain in that

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<sup>1</sup> Printed on p. 670.



direction. While such hopes persist they will continue to impede any negotiations our Government may initiate on other matters.

Needless to say, such a declaration should be so phrased as not to be mistaken as an indication of displeasure on the part of the United States Government or of its desire to apply pressure upon the Panamanian Government.

Respectfully yours,

MONNETT B. DAVIS

711F.1914/10-1248

*The Acting Secretary of State to the Secretary of Defense (Forrestal)*

CONFIDENTIAL

WASHINGTON, October 12, 1948.

DEAR MR. SECRETARY: On October 1, 1948 a new administration came into office in the Republic of Panamá with the inauguration of Domingo Diaz Arosemena as President.

President Diaz has indicated in informal conversations with Ambassador Davis at Panamá that he considers solution of the problem of United States bases in territory of the Republic as one of the primary tasks of his administration. In his inaugural address on October 1 he referred to the matter publicly with a statement to the effect that Panamá is ready to make any sacrifice consistent with her dignity and sovereignty for the purpose of cooperating in the defense of the Canal.

In as much as it seems likely that the Government of Panamá will shortly approach this Government formally on the issue of a new defense sites agreement, the Department would appreciate having an expression of the current views of the National Military Establishment with respect to the need for such an agreement with the Republic of Panamá and provisions desirable for inclusion in an agreement.<sup>1</sup>

Sincerely yours,

ROBERT A. LOVETT

<sup>1</sup> Letter of October 28, 1948, is cited in letter of January 18, 1949, which will appear in a subsequent volume of *Foreign Relations*.

711.19/12-1048 : Airgram

*The Ambassador in Panama (Davis) to the Secretary of State*

PANAMÁ, December 10, 1948.

A-919. In view of the importance of public relations here, the Commander-in-Chief Caribbean and Governor of the Panama Canal have followed the practice of discussing with the Embassy proposed press releases contemplated to have an effect on relations with Panamá. For

the information of the Department there are quoted below the questions and answers of interviews given by the Cominch Carib to the representatives of two local newspapers. The proposed replies to these questions were discussed informally with the Embassy prior to the interview.

Q: Does the Caribbean Command maintain any installations in Panamanian territory outside the Canal Zone? A: The Caribbean Command does not maintain any installations in Panamanian territory other than areas occupied and controlled by the United States Government at the time of the 1936 Treaty. Q: Has the Caribbean Command replaced at other locations any of the installations it maintained in Panamá at the time of the evacuation of defense sites last December? A: Yes. Q: It is reported that the San José Project, for example, has been transferred to St. Thomas. Is this true? A: Yes. Q: And if so, are there other similar instances of local installations transferred elsewhere? A: Yes. Q: Have the Canal defense requirements changed radically or even appreciably in the last year? A: No.

Q: In the event that the bases negotiations with Panamá should be renewed, would the Caribbean Command seek the same or comparable sites as were occupied last December? Or would an entirely new system of bases be sought? Would *any* bases be asked? If no bases were needed, what defense requirements would be negotiated with Panamá? A: The United States policy concerning bases in Panamá will be formulated by the proper policy-making agencies of our Government in Washington. I refer you particularly to the excellent statement of the U.S. Ambassador to Panama made on 26 May 1948.<sup>1</sup> I have nothing to add to his statement as it is still a valid expression of the attitude and policy of the United States Government. (For convenient reference the statement is attached.) Q: Regardless of whether or not bases in Panamá are obtained in the near future, are the present defenses of the Canal considered adequate? If not, would bases in Panamá be regarded as a contribution to improve the Canal defenses? A: As the Commander responsible for the defense of the Panama Canal, I am in no position to express my views concerning the adequacy of this defense except confidentially through military channels. Q: Has the Caribbean Command submitted any recommendations within the last year to its Department in Washington concerning the bases question? A: I consider this an improper question.

Q: Does the General consider the present defense installations of the Panama Canal sufficient to defend the waterway in the event of a surprise attack by any enemy power, similar to Japan's blow against the United States at Pearl Harbor? Q: Has the withdrawal of United

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<sup>1</sup> See press statement of May 25, p. 670.

States forces from the former Panamanian bases weakened to any extent, the strategical defenses of the Panama Canal? Q: What steps are necessary to place the Canal's defenses on such a footing that any sudden onslaught by an enemy power against the waterway could be successfully repulsed? Q: Does the General favor a sea-level canal as being easier to defend in the event of any sudden enemy attack than the present waterway? A: As the Commander responsible for the defense of the Panama Canal I am in no position to express my views concerning the adequacy of this defense except confidentially through military channels.

Q: Does the General favor a re-opening of bases negotiations between the United States and Panamá? A: The United States policy concerning bases in Panamá will be formulated by proper policy-making agency of our Government in Washington. I refer you particularly to the excellent statement of the U.S. Ambassador to Panama made on 26 May 1948. I can add nothing to his statement. (Statement attached.)

A similar questionnaire has been received by the Embassy and will be made the subject of a separate airgram.<sup>2</sup>

DAVIS

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<sup>2</sup> A-923, December 15, *infra*.

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711.19/12-1548: Airgram

*The Ambassador in Panama (Davis) to the Secretary of State*

PANAMA, December 15, 1948.

A-923. With reference to the Embassy's airgram 919, December 10, there are quoted below questions submitted by Mr. Luis Noli, prominent local newspaper man on the staff of the *Star & Herald*, who acts as correspondent in Panamá for the AP, together with proposed replies:

Q. What is the status of the defense sites question from the US viewpoint? Q. Have any discussions been held, formally or informally, with Panamá on the resumption of negotiations? Q. What requirements must be fulfilled, from the US viewpoint, before negotiations can be resumed? Q. Has the United States drafted any list or plan of defense requirements that would be asked of Panamá if and when the negotiations are resumed? Q. If so, are these requirements radically different from those that existed at the time of the evacuation of the defense sites last December?

A. As to the foregoing five questions, reference is made to my statement to the press of last May 26, which is still a valid expression of



the attitude and policy of the US Government with respect to defense sites. (For convenient reference the statement is quoted in full below.)<sup>1</sup>

Q. What would happen if a sudden emergency arose and no negotiations had yet been undertaken? A. It is believed such a contingency is covered by Articles II and X of the General Treaty between the United States and Panamá, of March 2, 1936.

Q. Assuming that bases in Panamá will be negotiated for sooner or later, are the negotiations being delayed in any way pending Congress' decision on the proposal for the conversion of the present Panama Canal to sea-level? Or is the delay solely a question of waiting for Panamá to request the resumption of the negotiations? A. While it cannot be assumed that bases will be negotiated for, the reply to both the above questions is in the negative.

Q. Is the United States testing sentiment towards it before undertaking new bases negotiations—for example, would the approval or rejection by Panamá of the proposed aviation agreement have any bearing on US readiness to enter negotiations for bases? A. The purpose of the United States Government in proposing an air agreement is to resolve outstanding aviation questions. While the negotiations may be a test of our ability to conclude an agreement believed to be to the mutual advantage of both countries, the purpose of the negotiations is not to provide such a test. The Embassy in fact has no instructions to take up the question of defense sites irrespective of the outcome of the negotiations regarding aviation.

DAVIS

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<sup>1</sup> See press statement of May 25, p. 670.

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#### STEPS TO IMPROVE LABOR RELATIONS OF THE UNITED STATES GOVERNMENT IN THE CANAL ZONE<sup>1</sup>

811F.504/3-1748

*The Secretary of State to the Secretary of Defense (Forrestal)*

CONFIDENTIAL

WASHINGTON, September 7, 1948.

DEAR FORRESTAL: You will recall that, pursuant to the interest of the President, arrangements were made by the State, War, Navy and Labor Departments for Brigadier General Frank McSherry (ret.) to spend four months last year in the Canal Zone studying problems arising from United States Government labor relations. On June 1, 1947 General McSherry submitted a detailed report which offered evidence of both official and unofficial discrimination against Pana-

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<sup>1</sup> For documentation on discussions of alleged discriminatory treatment of certain labor classes in the Canal Zone, see *Foreign Relations*, 1947, vol. VIII, pp. 948 ff.

manians in the Zone. In his report General McSherry made definite recommendations for reforms, emphasizing that his proposals were confined to those deemed practicable and capable of early implementation without undue shock to the established patterns of social and economic relations.

I have been impressed by the objectivity of the McSherry report and, through personal conversation with General McSherry, by his conviction that continuance in the Canal Zone of outmoded labor practices is harmful to the national interest. Moreover, I have become convinced that Panamanian resentment over certain United States Government employment practices in the Canal Zone is a primary cause of difficulty in this Government's political relations with the Republic of Panama and an important background factor in the rejection last December by the Panamanian Assembly of the Defense Sites Agreement signed by our two governments.<sup>2</sup> The attitude of resentment and feeling of discrimination on the part of the Panamanians concerning certain of the existing employment regulations also have the effect of making more difficult other negotiations with Panama, such as arrangements for adequate security control over civil aviation and radio on the Isthmus.

Complaints on this subject presented officially by Panama at international conferences have embarrassed this Government, and the Panamanian Government has recently renewed its charges that the United States Government employment practices in the Canal Zone not only admit discrimination but are also at variance with the General Treaty of 1936<sup>3</sup> wherein the United States agreed to maintain equality of opportunity and treatment for Panamanians in the Zone. Not only the Republic of Panama, but all the other American republics regard United States activities on the Isthmus of Panama as an example of our treatment of citizens of other nationalities. The importance of the effect of our policies in the Canal Zone on our international position in this Hemisphere and in the United Nations should impel us to make every effort to make the Zone a showplace of American democracy in practice.

I am enclosing with this letter a memorandum which sets forth certain specific steps which I believe this Government can and should take without undue delay to carry out certain of the recommendations made by General McSherry. This action would not only reduce the basis for hostile criticism of United States administration on the Isthmus of Panama and contribute materially to the security of our position in Panama but it would eliminate the validity of the unfriendly charges made on this subject against the United States by anti-American elements throughout the Western Hemisphere. These

<sup>2</sup> See *Foreign Relations*, 1947, vol. VIII, pp. 881 ff.

<sup>3</sup> Department of State Treaty Series No. 945, or 53 Stat. 1807.

changes would also bring Canal Zone labor practices into closer accord with our treaty commitments and with proclaimed national policies.

Faithfully yours,

G. C. MARSHALL

[Enclosure]

# MEMORANDUM

Subject: United States Government Labor Relations in the Panama Canal Zone.

Action has recently been taken in the Canal Zone to improve United States Government labor relations, principally by hourly wage increases for alien employees—granted to more than 15,000 of the 18,200 local employees of The Panama Canal and Panama Railroad—and the admission of Panamanian citizens to examinations for certain civil service positions in line with United States treaty commitments. In a sensitive area such as the Canal Zone, reforms must of course be gradual, and progress could probably not take place rapidly enough to satisfy the more willful critics of the United States. However, there are certain further steps which the United States Government should be able to take without undue delay in a forthright program to remove the basis for hostile criticism of United States administration on the Isthmus of Panama.

There follows a brief summary of some of the more apparent evidences of discrimination which now exist in United States employment practices in the Canal Zone, as discussed in the McSherry report. It would be very desirable to have these discriminations corrected as soon as practicable with full consideration for the possible advisability of carrying out some of these reforms gradually.

*Gold-Silver Roll.* According to the McSherry report, at present the principle of equal pay for equal work is not used in the Zone, particularly in the organizations of The Panama Canal and The Panama Railroad. The following comparisons of monthly pay rates for gold and silver roll employees (practically speaking, United States citizens and alien employees) with comparable duties indicate relatively wide inequality.

	<u>Gold</u>	<u>Silver</u>
Carpenter.....	\$300 plus.....	\$95
Painter.....	300 plus.....	95
Policeman.....	300.....	80
Foreman.....	250.....	100
Motion Picture Operator.....	250.....	95
Chauffeur.....	240.....	95
Baker.....	225.....	100
Watchman.....	210.....	75
Saleswoman.....	175.....	75
Teacher.....	325.....	110



In many of these categories there appears to be little room for differences in skill of performance. The United States is criticized frequently and bitterly by foreign officials and individuals for maintaining this system. Allegations are frequent that the purpose is primarily to enable national and racial discrimination, and the situation provides opportunity for exploitation by communist and other anti-American elements. The Department has been informed by the American Federation of Labor's expert on inter-American labor matters that the discrimination in the gold and silver roll is the one point of criticism of our labor policies in the Canal Zone on which the Federation has no adequate answer to communist attacks.

General McSherry has recommended that The Panama Canal and The Panama Railroad abolish gold and silver roll titles and establish a single wage structure. This appears technically practicable and would accomplish more in the way of eliminating criticism of United States personnel practices in the Canal Zone than any other single step. Such a change need not mean the payment of United States wages to all silver roll employees, nor does it envisage the abrupt elimination of segregation in a manner offensive to established social patterns, but would merely mean that equal performance would be rewarded with equal compensation. It would be anticipated, of course, that due allowance would be made for the more economical circumstances of those living at home in their own national environment as compared with those who have gone abroad from the United States to work in the Zone.

*Leave Privileges.* According to the McSherry report, the gold roll employees receive 40½ days of leave per annum cumulative to 90 days. Silver roll employees are credited with 24 working days of sick leave per annum. Silver roll employees are not allowed to take rest leave until they have accumulated in excess of 30 working days, and then only to the amount of their credit above 30 days. General McSherry recommended that leave privileges of silver roll employees be adjusted to equal those of United States Government employees elsewhere.

*Retirement.* The Canal Zone Retirement Act is somewhat more liberal than the United States Civil Service Retirement Act, but it applies only to gold roll employees. The McSherry report indicates that silver roll employees receive no retirement benefits and that even those few non-United States citizens on the gold roll are treated for retirement purposes as silver roll employees. The latter participate in a cash relief program which provides monthly payments of \$1.00 for each year of service with a \$10 minimum and \$25 maximum. General McSherry recommended that silver roll employees be placed under the Civil Service Retirement Act. The Act authorizes such action and the taking of this simple step would mean that charges of discrimination in the matter of retirement would no longer have real basis.

811F.504/10-2948

*The Secretary of Defense (Forrestal) to the Secretary of State*

WASHINGTON, October 29, 1948.

DEAR MR. SECRETARY: This is with further reference to your letter of 7 September 1948 concerning labor problems in the Canal Zone, and to my acknowledgment of 15 September. As I indicated in that letter, I felt it was necessary to obtain the recommendations of the Departments of Army, Navy, and Air Force, and of the Panama Canal, since all four agencies have a direct interest in this matter.

A complete report on this subject is not yet available, but I am forwarding for your information a copy of a memorandum dated 21 October 1948 from the Governor of the Panama Canal to the Secretary of the Army, which may be of interest. This gives, in a preliminary fashion, some indication of the action which is being taken and the consideration which is being accorded to these various questions. In transmitting this memorandum to me, the Secretary of the Army stated that he was expecting a complete report from the Canal Zone in the near future and would make this available as soon as it had been received.

Sincerely yours,

JAMES FORRESTAL

[Enclosure]

*Memorandum by the Governor of the Panama Canal (Newcomer) to the Secretary of the Army (Royall)*

WASHINGTON, October 21, 1948.

Subject: Labor Relations in the Canal Zone

Reference is made to memorandum of 15 September 1948 on the above subject to you from the Secretary of Defense in which he requested an appropriate answer that he could send to the Secretary of State in reply to certain criticisms voiced by the latter with respect to labor conditions in the Canal Zone. Accompanying the Secretary of State's letter was a memorandum in which there were enumerated three particular items described as evidences of discrimination in the Canal Zone that should be corrected as promptly as possible.

My purpose in writing this memorandum during my present visit in Washington is to place before your office information in the nature of an interim report that may be helpful pending the receipt of a more complete report from the Isthmus. I am informed that the Commander-in-Chief, Caribbean, has referred the subject to the Canal Zone Personnel Board for consideration and preparation of a report

that will be coordinated there among the four agencies that are concerned.

By way of general observation on the Secretary of State's letter and its accompanying memorandum it occurs to me that the Secretary of State may not have been fully informed on progress that has been made in labor relations in the Canal Zone since the time that General McSherry made his report to the Governor. That report was submitted to the Governor in June 1947. It was made at the request of the Governor in order that he might have the benefit of the views of a disinterested investigator and has, of course, been carefully studied and the recommendations contained in it have been or are being implemented to the extent justified or feasible. A Canal Zone Personnel Board has been created by the Commander-in-Chief, Caribbean, to keep him advised of labor conditions in the Zone and to accomplish such coordination in labor matters among the four governmental agencies as is practicable. An extensive survey of the 18,000 positions filled by aliens in the service of The Panama Canal-Panama Railroad was completed early this year by The Panama Canal and a new wage schedule which effected material increases in the compensation of a large portion of these workers was made effective at the end of February 1948. The work was planned and conducted with the aid and advice of several of the best qualified experts of the United States Department of Labor and the completed task resulted in the establishment of a wage schedule and the compilation of job analyses which are in conformity with modern practices in this respect. The minimum wage for alien employees previously fixed at 16 cents per hour was advanced to 26 cents and the maximum rate was advanced to \$1.40 per hour. A grievance procedure patterned on that followed in industry in the United States has been established and is working well. Leave privileges of alien employees have been liberalized within the past year and further changes are presently under consideration. Additional examples of improvements that have been effected could be cited but the foregoing will suffice to indicate that the policy of the Canal administration is sympathetic toward labor and is not static.

Turning to the specific issues raised in the memorandum accompanying the Secretary of State's letter, the first is that the principle of equal pay for equal work is not used in the Zone. As a statement of general policy, this criticism is not supported by fact. It is true for example that "Gold" carpenters receive a higher wage than do the "Silver". The difference is not due to citizenship, American on the one hand and alien on the other, but to the complete and basic differences in their qualifications. A journeyman carpenter recruited in the United States has certain well defined capabilities based on training, experience, and



an ingrained sense of responsibility for his work. He is needed for certain purposes. Other so-called carpenters also are needed but they need not, and do not, have the qualifications of the journeymen. They are recruited locally. The former are paid at rates based on those prevailing in the United States while the latter's compensation is based on rates prevailing in the locality. The same comments may be made with respect to other categories of employees but would serve no purpose other than to emphasize that there are two rates of pay based on qualifications and that this condition is inherent in the Canal Zone and must be recognized as economically sound. It is no more an evidence of discrimination than would be the statement that all carpenters in the employ of the Government in the United States do not receive the same wage, a statement that is obviously correct. In support of General McSherry's contention, however, it is desired to state that there are some two hundred positions in the Canal service the occupants of which are "Silver" employees paid at local rates and whose work is on the borderline between that expected of "Gold" employees and of "Silver" employees. These positions are now being carefully surveyed to insure that there is no discrimination because of nationality and it is quite probable that some of these may be changed over to the United States rate basis.

As indicated above, further liberalization of alien or native leave privileges is now under consideration on the Isthmus. The McSherry report recommends that leave privileges of silver roll employees be adjusted to equal those of United States Government employees elsewhere. This recommendation is considered inappropriate for at least three seemingly sound reasons: first, the employees are reasonably well satisfied, with some minor exceptions, with the present leave regulations; second, a rough estimate of the cost of effectuating the recommendation is \$1,200,000; third, there is no basic principle on which the recommendation can be justified. If the United States is in a position to invest annually an additional \$1,200,000 in the wages of the alien employees it would, in my opinion, be much more humanitarian to raise their rates of pay rather than give them more leave, which they are not requesting and which they do not particularly need. This subject is, however, being given further consideration.

General McSherry recommends that the silver roll employees be placed under the Civil Service Retirement Act and seems to believe that the Act authorizes such action. Since the passage of the Act the Canal administration has construed it as being inapplicable to alien employees of the Canal-Railroad because by its own terms it excludes those employees of the United States who are subject to any other retirement laws. The Canal Zone Code was amended in 1937 to grant certain disability monthly cash payments to alien employees of not

less than ten years service who are removed from the rolls for physical reasons. Additional legislation will be required, therefore, before the present system can be changed. The Civil Service Commission concurs in this construction of the present law. Four possible plans to accomplish desirable modifications in the retirement law have been developed during the past several months and are now being readied for discussion with the Civil Service Commission in anticipation of the introduction of an appropriate bill in the coming session of the Congress. There is little doubt that it will be possible to make beneficial modifications in the present retirement law applicable to alien employees and it is my purpose to carry the matter to early completion.

The foregoing is not intended to be a complete answer to the letter from the Secretary of State but simply to indicate that labor relations in the Canal Zone are receiving active attention and that substantial progress has been made to improve them, with additional progress in prospect. A more comprehensive report will be forthcoming from the Isthmus.

F. K. NEWCOMER

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811F.504/12-348

*The Ambassador in Panama (Davis) to the Secretary of State*

No. 713

PANAMA, December 3, 1948.

Subject: Army Memorandum Regarding Employment Practices in Canal Zone

SIR: I have the honor to refer to the Embassy's airgram No. A-793 of October 29, 1948<sup>1</sup> reporting the announcement in the local press that a full-scale study of all labor problems in the Canal Zone was being conducted as a result of a letter addressed to the Secretary of Defense by the Secretary of State and to the Embassy's despatch No. 672 of November 15, 1948<sup>1</sup> entitled "Army's Reclassification Act Affecting Non-United States Citizens in the Canal Zone" and to forward attached a copy of a memorandum, with enclosure,<sup>2</sup> prepared for and forwarded to the Secretary of the Army by the Commander in Chief, Caribbean Command, subject: "Canal Zone Personnel Problems", which apparently constitutes a study of present employment and personnel practices in the Canal Zone undertaken as a direct result of the Secretary of State's letter to the Secretary of Defense.

Respectfully yours,

For the Ambassador:

EDWARD W. CLARK

*Second Secretary of Embassy*

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<sup>1</sup> Not printed.

<sup>2</sup> Enclosure to memorandum not printed.

[Enclosure]

*Memorandum for the Secretary of the Army*

CC(A)2

29 NOVEMBER 1948.

Subject: Canal Zone Personnel Problems

1. On September 15, 1948 the Secretary of Defense sent you a memorandum including with it a letter to him from the Secretary of State of 7 September 1948. The latter dealt with certain Canal Zone employment problems and personnel practices analyzed in a report by Brigadier General F. J. McSherry.

2. In an enclosure accompanying his letter, the Secretary of State listed three "specific steps" which the letter itself stated "this Government can and should take without undue delay to carry out certain of the recommendations made by General McSherry". These three "steps" relate to *wages, leave and retirement*.

3. The general nature and scope of this group of interrelated problems is well known to you. The action taken on them here within the past year may not be. It is stated in the enclosure herewith, which summarizes a recent analysis made by the Canal Zone Personnel Board. This summary supplements Governor Newcomer's interim report to you of 21 October 1948.

4. Every analysis of this group of problems and of their possible solutions is fundamentally affected by two factors which follow:

*a.* First, the provisions contained in notes accessory to the 1936 Treaty relative to the principle of equality of opportunity and treatment to be accorded employees of Panamanian and United States citizenship (Treaty Series No. 945, Page 56; 53 Stat. (pt. 3) 1807, 1868), pertain expressly to employees of the Panama Canal and Railroad. Those provisions have no application whatever to any elements of our National Military Establishment.

*b.* Second, the Panama Canal Administration is highly localized. Its labor practices have been and are largely conditioned upon its local environment. It does not employ personnel in other foreign overseas areas. On the other hand, that part of our Military Establishment located within the Canal Zone is but a small fraction of the whole. Its personnel practices, in contrast to those of the Panama Canal Administration, have evolved from and function as a result of labor employment rules and regulations in current use by our Armed Services throughout the world. Major changes in those rules and regulations would inevitably produce major reactions in other overseas employment areas of the Military Establishment, as well as call for appreciably larger appropriations here.

5. The core of this whole problem is the fact that most of the criticism directed at U.S. agencies on this subject is the result of reasoning which begins with two premises—first, that there should be uniformity



between corresponding personnel practices of The Panama Canal and Railroad and other U.S. agencies in the Canal Zone, and second, that all U.S. agencies here should provide equal pay for equal work.

6. Acceptance of either premise has not yet been shown to be in the overall best interests of the United States. In fact, both are at least partly fallacious, by reason of the major dislocations their adoption would provoke in other important United States interests here and in other overseas areas.

7. For the Panama Canal and the agencies of the U.S. Military Establishment in the Canal Zone to attain uniformity in personnel practices, policies and procedures, it will be necessary either to amend those laws and departmental regulations presently binding upon our Military Establishment here and in all other overseas areas merely to meet a problem which concerns only Panamanians in the Panama area, or to negotiate new treaty provisions with Panama so as to permit changes in those in current use by the Panama Canal and Railroad.

8. Neither of these alternatives promises any early practicable solution though both deserve and will continue to be subjected to thorough examination in search of any partial remedies which they may offer.

9. It is hoped that this letter and enclosure may furnish means for eliminating much unjustified criticism and also for replying to criticism which is honest and constructive.

M. B. RIDGWAY  
*Lieutenant General, U.S. Army*  
*Commander in Chief*

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811F.504/12-848

*Memorandum by the Acting Assistant Chief of the Division of Central America and Panama Affairs (Bennett)*

CONFIDENTIAL

[WASHINGTON,] December 8, 1948.

Subject: Labor Practices in the Canal Zone

The Panama Canal has announced that the terms "gold roll" and "silver roll" have been eliminated from the new salary and wage schedules of The Panama Canal and The Panama Railroad.<sup>1</sup> The last "gold" and "silver" signs in public places have been recently removed in conclusion of a program which has been under way for more than a year since the issuance of the McSherry report.

Action with respect to employment terminology was taken in con-

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<sup>1</sup> The announcement was made on November 20, 1948, according to despatch 691, November 22 from Panama, not printed (811F.5041/11-2248).

nection with an overhaul of salary and wage schedules, which embraces several hundred different positions occupied by more than 23,000 employees of The Panama Canal and The Panama Railroad. The re-sented "gold" and "silver" terms will no longer have any application or significance in connection with positions and payrolls.

The Embassy reports there has been surprisingly little comment on the action in the Panamá press. While the press announcement put out by The Panama Canal received wide coverage, much of its significance was unfortunately lost to the public due to the fact that the release was of an exceptionally detailed and technical nature. CPA has been in touch with POS to arrange for appropriate press and radio treatment through our official facilities.

Recently the Air Force in the Canal Zone announced that non-U.S. civilian employees may now aspire to all grades up to and including top positions in competition with U.S. citizens on the basis of merit. Formerly, non-U.S. citizens were stopped about half-way up the ladder. There is a joker here, however, in that the rates paid the two groups will differ for the same positions; salaries of non-U.S. personnel are based on prevailing wage scales, whereas salaries paid U.S. citizens are based on laws passed by Congress. In general the pay of non-U.S. personnel amounts to somewhat more than one-half of the total pay received by U.S. citizens in identical ratings. It will be hard to convince Panamanians that this system offers equal pay for equal work.

As regards the other armed services in the Canal Zone, a recent reclassification program has been the subject of critical comment on the part of Panamanians. In answer to inquiries from the Embassy, General Ridgway has replied that the Civil Service Commission has ruled that the 1936 Treaty commitments concerning equality of employment opportunity and treatment are limited to positions in The Panama Canal and The Panama Railroad Co. and do not apply to the establishments of the armed services on the Isthmus. On the basis of that ruling the armed services have not felt it necessary to distinguish between Panamanians and other non-U.S. citizens in the Canal Zone, and in their reclassification program they have been guided by the policy applicable elsewhere outside the continental United States where there are two standards, one for U.S. citizens and one for aliens. Needless to say, this Civil Service Commission ruling <sup>2</sup> strikes at the heart of our recent recommendations to Secretary Forrestal on the McSherry report. While the CSC is technically correct in its ruling that the

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<sup>2</sup> Marginal note in original: "I think that Gen. Ridgway uses CSC rulings on minimum rights for Panamanians as his own *maximum* policy. W. T[apley] B[ennett]"

Treaty commitment applies only to The Panama Canal and The Panama Railroad Co., this sort of double standard is certainly contrary to the spirit of the Treaty. And lumping Panamanians in the same category with all other aliens contravenes the policy in effect since 1908 which has always granted a definite status.

In connection with the reclassification program of The Panama Canal, Governor Newcomer has reported that the minimum wage for alien employees, previously fixed at 16 cents per hour, has been advanced to 26 cents and the maximum rate to \$1.40 per hour (these are still substantially below rates for U.S. citizens). Grievance procedures have been instituted, and leave privileges of alien employees have been liberalized within the past year. Plans are under way to improve retirement laws for alien employees of The Canal-Railroad. Thus it appears that some advances have been made in connection with the three points stressed in our letter to Secretary Forrestal, i.e, "gold" and "silver" roll, leave privileges and retirement provisions. The Governor's memorandum makes it clear, however that, while he may have been prodded somewhat by the State Department's emphatic support of the McSherry recommendations, he intends to proceed at his own pace in implementing the report. The Zone administration gives every appearance of being a most reluctant reformer.

It is heartening to note the progress which the abolition of the "gold" and "silver" roll represents. This progress is unfortunately counterbalanced, and possibly overbalanced, by other personnel actions taken in the Canal Zone. The road to reform on the Isthmus has many blind turns and disheartening detours.

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#### EFFORTS TO SETTLE PROBLEMS OF AVIATION, CLAIMS, AND HIGHWAY MAINTENANCE

419.11 El Encanto Land Tract/5-1848

*Memorandum by the Chief of the Division of Central America and Panama Affairs (Newbegin) to the Director of the Office of American Republic Affairs (Daniels)*

[WASHINGTON,] May 18, 1948.

Subject: Panama—Settlement of El Encanto Claims

With reference to your memorandum of May 14<sup>1</sup> I submit the following summary of efforts which have been made in recent years to settle the El Encanto Claims with Panama.

In addition to the specific attempts which I set forth below I should

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<sup>1</sup> Not printed.



like you to know that there have been innumerable informal conversations with Panamanians on this matter which I am not attempting to list.

The El Encanto Claims were originally filed with the General Claims Commission, United States and Panama, in 1932 in the sum of approximately \$1,407,000. The claims were thrown out by the Commission on jurisdictional grounds.

In 1935 the Department reviewed the claims, and in a note of December 26, 1935 the Panamanian Government was requested to cooperate with the United States in the prompt settlement of these claims, which by then had been pending some 4 years. Subsequent notes were presented to the Panamanian Government as follows:

January 24, 1936  
October 6, 1937  
April 4, 1938  
August 9, 1938  
March 21, 1940  
November 19, 1940  
May 5, 1941  
Sept. 19, 1941

These notes suggested settlement by arbitration. The Panamanian Government throughout followed the tactics of delay and opposition to any form of arbitration suggested by us.

In 1942 and 1943, during hearings at the Capitol on proposed legislation which later became effective and cancelled Panama's \$2,500,000 debt to the Export-Import Bank for the Rio Hato Highway, turned over extremely valuable Panama Railway lots to the Panamanian Government, and turned over the waterworks and sewerage systems owned by us to Panama, the question of the El Encanto Claims arose and the legislation was almost defeated by lawyers of the American claimants. The Department gave assurances to the Congress that immediately following enactment of the legislation all efforts would be made to secure an agreement with Panama for the settlement of these claims.

In a note of June 20, 1943 the Department again strongly urged Panama to arbitrate the claims and at the same time submitted an alternative solution by direct settlement through a reasonable lump sum payment by Panama. On October 15, 1943 the Department pressed for a reply from Panama.

In 1944 Panamanian Foreign Minister Samuel Lewis was in Washington and indicated his agreement that lump sum settlement would appear to be advisable, although he felt our asking of \$470,000 was too much for "poor Panama" to pay.

In July 1945 Murray Wise<sup>2</sup> was in Panama and obtained informal promises from the President that he would instruct Foreign Minister Alfaro to dedicate himself first and foremost to the settlement of these claims. Shortly afterwards Ambassador Vallarino arrived in Washington and began talking claims, but on the basis of a \$50,000 settlement. No progress was made.

In 1946, at the suggestion of Panama, an agenda of round table conferences on various pending matters between the two governments was drawn up and included settlement of the El Encanto Claims. During preliminary discussions Foreign Minister Alfaro showed no inclination to reach any agreement and spent all of his time criticizing the unfairness of the United States attitude toward the validity of the claims. He disagreed with the Department's decision that the claims were *prima facie* valid and that there had been any denial of justice to American claimants by Panama. He was very bitter because he believed the United States had accused the Panamanian Government of "collusion" in denying justice to American claimants.

In December 1946 Alfaro was in Washington and was informed by the Department of this Government's desire to settle the claims immediately by direct negotiation. He persisted in his belief that the Department's attitude was unjust. He was then told of our willingness to arbitrate the claims and that if such procedure suited Alfaro better we were prepared to proceed at once toward this method of settlement. It became quite obvious that Alfaro did not wish to arbitrate.

On December 20, 1946 the United States Embassy at Panama presented the Panamanian Government with a proposed convention for the settlement of three pending claims, including the El Encanto group. A lump sum settlement for the latter was proposed in the sum of \$400,000.

Murray Wise was in Panama again in February 1947 and upon instruction pressed the President for settlement. Wise learned that the President and his Cabinet, except Alfaro, were willing to settle on our terms and was told that in fact the Comptroller General had instructions to turn over a check for \$100,000 representing first payment. However, Alfaro continued to oppose settlement and as a result Panama has been unable to take further steps toward signing the proposed convention. Panamanian Foreign Relations, even though Alfaro is out of office, continues to delay, proposing that while notes would acknowledge Panamanian obligation to pay full amount, rather than put up some \$400,000 deposited, drafts would be drawn on Panama as each claim is adjudicated. This is unsatisfactory to the Department, as it shows complete lack of good faith in the United

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<sup>2</sup> Assistant Chief, Division of Central America and Panama Affairs.

States Government. The United States Government has reduced its original request for \$1,407,000 settlement to \$400,000 cash settlement or less if payment to the claimant does not reach that amount. All the Department asks is a deposit in advance to show Panama's good faith in our sincere desire to settle this long pending matter.<sup>3</sup>

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<sup>3</sup> In airgram A-444 of September 28 to the Embassy in Panama, Acting Secretary Lovett indicated that the Department of State expected Panama to proceed to carry out its frequently expressed intention to make settlement on the already agreed formula, and that agreement must be reached on settlement of the Encanto claim before serious consideration could be given other Panamanian requests (711.19/8-2848).

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819.154/6-1748

*The Acting Secretary of State to the Secretary of Defense (Forrestal)*

CONFIDENTIAL

WASHINGTON, July 9, 1948.

DEAR MR. SECRETARY: It is important that an immediate decision be reached as to whether the interests of the armed forces of the United States would be adversely affected if the Trans-Isthmian Highway were to be turned over to Panama for maintenance. If it is deemed advisable that this Government continue to retain the Trans-Isthmian Highway with the concurrent responsibility of full maintenance, it would be expected that the Army would make appropriate funds available now to the Public Roads Administration for this work as it has done in the past, or would instruct its forces in Panama to continue this work. The cost of maintenance on this Highway for the current fiscal year is estimated by the Public Roads Administration to be approximately \$210,000.

On the other hand, if this Government decides to relinquish the Highway to Panama it will be necessary that the Panamanian Government be so notified at least thirty days in advance of any change of the present arrangement. Provided this alternative is chosen, it should be borne in mind that if the armed forces of the United States continue to use the Trans-Isthmian Highway frequently and periodically, this Government will still be obligated to pay Panama one-third of the total annual maintenance cost in accordance with paragraph 5 of the General Relations Agreement signed between the United States and Panama on May 18, 1942.<sup>1</sup>

By way of background, you may recall that the United States constructed the Trans-Isthmian Highway at its own expense and subsequently has been exclusively responsible for its upkeep. This obligation was assumed under the provisions of both Article VIII of the

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<sup>1</sup> Department of State Executive Agreement Series No. 452, or 59 Stat. (pt. 2) 1289.



Defense Sites Agreement of 1942<sup>2</sup> and under the provisions of paragraph 5 of the General Relations Agreement of the same date. From the copies of these agreements which are enclosed it will be noted that the language of the aforementioned provisions is practically identical.

The problem which now confronts this Government is set forth in considerable detail in the Department's telegram no. 405 of May 29, 1948 to Panama and in the Embassy's reply despatch no. 379 of June 17, 1948, copies of which are also transmitted herewith.<sup>3</sup> Although the Department considers that the Defense Sites Agreement was abrogated by notes exchanged on February 16 and 19, 1948 between the United States and Panama,<sup>4</sup> there has been no change in the applicability of paragraph 5 of the General Relations Agreement which stands as a current commitment to Panama.

While funds provided by the Army to the Public Roads Administration for maintenance of the Trans-Isthmian Highway were exhausted as of June 30, 1948, the Public Roads Administration has consented temporarily, pending a decision on this matter, to continue its operations in Panama on a reduced scale but in a manner adequate to keep the Highway in necessary repair.

I am informed that among the various interested United States departments and agencies there is apparently unanimous agreement that Panama has neither the technical ability nor budgetary stability required to assume responsibility for the maintenance of this highway in first-class condition. In this connection, the tactical value of first-class maintenance of this road to the United States is a question to be answered primarily by the armed forces.

In view of the need for continuing full scale maintenance operations on the Trans-Isthmian Highway if the United States is to continue its present responsibility and in view of the necessity for advising Panama immediately if the status of our obligations is to be changed, I should be greatly benefited by as prompt a reply to this communication as may be possible.

Faithfully yours,

ROBERT A. LOVETT

<sup>2</sup> Department of State Executive Agreement Series No. 359, or 57 Stat. 1232.

<sup>3</sup> Neither printed.

<sup>4</sup> For Ambassador Hines' note 566 of February 16, see p. 664. February 19 note not printed.

819.154/10-1448

*The Secretary of the Army (Royall) to the Secretary of State*

CONFIDENTIAL

WASHINGTON, October 14, 1948.

DEAR MR. SECRETARY: Your letter, dated July 9, 1948, to the Secretary of National Defense, in which you recommend that an early

decision be reached regarding the maintenance of the Trans-Isthmian Highway in Panama, has been referred to me with the request that I correspond directly with you on this matter.

The continued existence of the Trans-Isthmian Highway, maintained in a first class condition, is militarily important to the United States. The Department of the Army shares the view that the Republic of Panama lacks financial capability and technical ability to maintain this highway in proper condition. Accordingly, and since the United States must, in any event, bear a part of the cost of maintenance, it is considered preferable that the United States undertake continued maintenance of the entire Trans-Isthmian Highway, subject to certain stipulations indicated below.

I am, therefore, in agreement with the recommendation of Ambassador Davis, that the General Relations Agreement be renegotiated and recommend that negotiations be initiated to this end with the Republic of Panama as early as practicable. It is to be noted that this action has also been proposed by General Fleming of the Federal Works Agency as the most satisfactory solution of United States road maintenance problems in Panama.

It is recommended that the following stipulations be incorporated in the new agreement:

1. That the United States undertake, at its expense, long-term maintenance of the Trans-Isthmian Highway in the Republic of Panama as well as in the Canal Zone.

2. That in return therefor, the Republic of Panama provide maintenance, without cost to the United States, of all other roads lying within the Republic of Panama which are, or may be, used by the armed forces of the United States.

3. That the right to use all roads within the Republic of Panama be assured to the armed forces of the United States.

4. That each government will maintain in a usable condition, roads which are its maintenance responsibility, but that upon failure to do so, the other government will have the right to make essential repairs, charging the cost thereof to the government failing to perform the maintenance in question.

Upon the adoption of a new agreement, the Commanding General, United States Army, Caribbean, will be designated as representative of United States armed forces in road maintenance matters in Panama, and the Federal Works Agency will be requested to supervise the maintenance of the Trans-Isthmian Highway. The Commanding General, United States Army, Caribbean, has been notified of this letter and asked to be prepared to assist in negotiations if called upon.

In the interim, the Federal Works Agency is being requested to continue the present reduced maintenance of this highway pending the completion of negotiations.

Sincerely yours,

KENNETH C. ROYALL

711.1927/11-1748 : Telegram

*The Ambassador in Panama (Davis) to the Secretary of State*

CONFIDENTIAL

PANAMA CITY, November 17, 1948—10 a. m.

875. Foreign Minister <sup>1</sup> told me last night that he now considers time opportune to inaugurate active phase negotiations air agreement in view success Embassy conferences with National Assembly deputies, Cabinet Ministers and press November 11 and 15 (Embtel 866, November 12 and Embtel 873, November 16 <sup>2</sup>). . . .

We agreed on desirability reach agreement soon and submit to Assembly for ratification while sentiment favorable and before opposition has opportunity raise false issues. I pointed out present drafts have been cleared by US Government and Embassy has been authorized proceed with negotiations, which places US in position cooperate fully in endeavor reach early agreement. The Department will be kept informed of progress.

DAVIS

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<sup>1</sup> Ignacio Molino, Jr.

<sup>2</sup> Neither printed.

S19.7962/1-1449

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*Memorandum for the Files, by Mr. Fred G. Heins of the Division of Central America and Panama Affairs*

[WASHINGTON,] January 14, 1949.

The United States Army and the Canal Zone authorities were anxious to see the Panama National Airport completed, in order to relieve the congested traffic at Albrook Field. Ambassador Hines and Lieutenant General Crittenberger, Commanding General, Caribbean Defense Command, considered the new airport important to the defense of the Panama Canal. The project was financed by the Government of Panama through the sale of bonds. Estimates for the cost of the project varied from \$5,000,000 to \$12,000,000. In March 1947 it was estimated that the total cost would not exceed \$7,000,000.

In June 1945 the Panamanian Government had awarded a contract to the American contractors, F. H. McGraw and Co., for the architectural and engineering design as well as the superintending of the entire project. By December Mr. Harry K. Fisher had been employed by the Government as a technical adviser and consultant. Both of these contracts, however, were terminated long before the completion of the project. Mr. Carl A. Posey, airport engineer, formerly with CAA, was also a consultant during the early stages of construction, and in



December, 1946 after the termination of the McGraw's [and] Fisher's contracts, was employed by Panama as Supervising and Managing Engineer in charge of construction of the National Airport.

Upon urgent and insistent requests from the Panamanian Government, the PRA did most of the construction work at Panama's expense. The highway to the airport was built by PRA under a contract with the Panamanian Government. The clearing, grading, excavation, drainage, paving, etc. on the airport itself were done under an agreement between PRA and Panama. The original agreement was dated May 1, 1946. The agreement provided that, (1) Panama would rent from PRA, with an option to buy, the necessary equipment; (2) Panama would make available for subsequent use on the Inter-American Highway any equipment thus purchased; and (3) PRA would lend to Panama on a reimbursable basis the necessary personnel for the construction of the airport which would be subject to the direction and approval of the Ministry of Public Works. (The Department went along with this arrangement although it clearly indicated that it was in principle opposed to United States Government agencies operating abroad in competition with private enterprises.) The Panamanian Government and our Embassy were convinced that the project would be unreasonably delayed unless PRA did the work, because no contractor in Panama had available the necessary equipment and personnel for such a project. By April 1947 the rentals paid by Panama to PRA nearly equalled the prices quoted on the equipment being used, and Panama then paid the difference and took over the equipment. Although the permanent Administration Building for the airport was not yet completed on June 1, 1947, a temporary building for that purpose had been erected and the airport was formally opened to international traffic on that day.

F[RED] G. H[EINS]

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711.1928/1-2749

*The Secretary of State to the Embassy in Panama*

CONFIDENTIAL

WASHINGTON, January 27, 1949.

No. 8

SIR: Reference is made to the Department's instruction No. 126, dated August 31, 1948<sup>1</sup> and subsequent correspondence concerning aviation matters in the Republic of Panama.

There is transmitted herewith a copy of a revised draft of an aviation agreement.<sup>1</sup> There is also transmitted herewith a copy of an ex-

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<sup>1</sup> Not printed.

change of notes concerning the Communications Cable Agreement and the Technical Aviation Mission.<sup>2</sup> These drafts represent the latest views of the Government of the United States and have been cleared by the Department, the National Military Establishment, the Civil Aeronautics Administration and the Civil Aeronautics Board.

You are instructed to present these revised drafts to the Government of Panama and, if they are acceptable, you are authorized at your discretion to sign the general aviation agreement and effect the exchange of notes. As it is necessary to clear any changes with the various agencies in Washington, the Embassy should refer any proposed deviations from the enclosed texts to the Department for clearance.

Full powers authorizing you to sign this general aviation agreement are being transmitted to you by hand by a member of your staff.<sup>3</sup>

Very truly yours,

For the Secretary of State:

WALTER A. RADIUS

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<sup>2</sup> Not printed.

<sup>3</sup> For text of agreement respecting air transport services, and agreements effected by exchanges of notes, signed at Panama, March 31, 1949, see Department of State Treaties and Other International Acts Series No. 1932, or 63 Stat. (pt. 3) 2450.

## PARAGUAY

### ECONOMIC AND POLITICAL RELATIONS BETWEEN THE UNITED STATES AND PARAGUAY

834.51/5-348

#### *Memorandum of Conversation, by the Secretary of State*

CONFIDENTIAL

[WASHINGTON,] May 3, 1948.

Subject: Appeal for Funds to support General Development Program in Paraguay

Participants: Dr. don Juan Felix Morales—Paraguayan Ambassador  
Rear Admiral Ramon E. Martino—Paraguayan Minister of Defense  
Secretary Marshall  
Mr. Tewksbury—RPA

It was expected that the newly appointed Paraguayan Ambassador and the Minister of National Defense, who reportedly was in Washington on an unofficial trip, planned only to make a courtesy call. After the Ambassador said a few words, Admiral Martino launched into a long statement of Paraguayan needs and pointed out that he had been requested by his Government to set forth these to me.

He explained in considerable detail that Paraguay has been a backward country and now wished to embark on a general development program. His general appeal was for funds to support the following projects:

- 1) Agricultural development, for which machinery and equipment was needed.
- 2) A general highway program, for which highway equipment was needed.
- 3) A development of the National Merchant Marine.
- 4) Construction of a railroad from Concepción to the Brazilian border, connecting with the Brazilian railroad to São Paulo and Santos.
- 5) Assistance in the development of basic industries and those for the processing of locally produced raw materials.
- 6) Aviation equipment, both for military and commercial use.
- 7) Tanks and armoured cars for use in training the Paraguayan Army.
- 8) Miscellaneous military equipment.



Admiral Martino went on to say that Paraguay was prepared to co-operate with the United States in the location and construction of a modern airport which could be used jointly by the United States and Paraguay for hemisphere defense in the event of another world conflict. He indicated that this airport could also be used for commercial purposes in times of peace and stated that Paraguay was prepared to work with technical experts from the United States in the location and construction of the airport.

After the statement of Paraguay's needs, I raised questions regarding Admiral Martino's statements concerning Paraguay's Merchant Marine, particularly with reference to such arrangements as have been made or are contemplated with Argentina. Similarly, I inquired as to conditions concerning the traffic and equipment to be used on the Paraguayan-Brazilian railroad and concerning freight rates, etc. While these problems are vital to the solution of Paraguay's transportation problems, Admiral Martino gave the impression that their solution offered no serious difficulty.

Just as he left, Admiral Martino suggested that it might be well for the Ambassador to prepare a memorandum of Paraguay's pending programs and needs "in order that I could have them for consideration prior to the visit of the President-elect of Paraguay to the United States".

GEORGE C. MARSHALL

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711.34/5-1348

*Memorandum of Conversation, by the Ambassador in Paraguay  
(Warren)<sup>1</sup>*

[Extract]

CONFIDENTIAL

ASUNCIÓN, May 13, 1948.

I saw Dr. César A. Vasconsellos, Minister for Foreign Affairs by appointment at 11 o'clock this morning in his office. It was the first time I had talked with him for any length since his return from the Bogotá Conference.<sup>2</sup> We talked for some thirty minutes. He was more the Foreign Minister than at any time heretofore. He was in fine form and appeared to speak with entire frankness. He told me:

(1) During the Bogotá Conference he had become well acquainted with all the American Delegation. He had known Ambassador Beau-

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<sup>1</sup> Copy transmitted to the Department by Ambassador Warren in despatch 257, May 13, 1948, not printed.

<sup>2</sup> For documentation on the Ninth International Conference of American States, held at Bogotá, Colombia, March 30-May 2, 1948, see pp. 1 ff.

lac during Mr. Beaulac's service as Ambassador in Asunción. From what he told me I would judge that he had much to do with Ambassador Daniels. He spoke with satisfaction of an hour long conversation which he had with General Marshall. He said that they discussed thoroughly many matters.

. . . . .

(5) In speaking of his conversation with General Marshall, Vasconsellos related to me the basis of the Paraguayan foreign policy. My impression is that he had made the same statement to General Marshall. At any rate, this is the substance of his remarks on that subject: Paraguay finds herself a mediterranean country linked by closest ties with Argentina. She knows how weak she is vis-à-vis that country. She fears the effort of Argentina to create an austral hegemony. In this situation all matters touching the two countries will fall into two classes; namely, those of primary importance and those of secondary importance. In any matter of secondary importance Paraguay, because of her weakness, as already mentioned, will try to go along with any specific Argentine desire. She will not oppose Argentina in such a matter. In anything of basic or primary importance she will stand for what she thinks is right and hope that patience will enable her to meet the consequences. She will not give in on a matter of primary importance. In view of this policy he foresees that in important matters Paraguay will be able to support American proposals while, in matters of secondary importance she will only be standing with the United States when our position and the Argentine position are the same. He illustrated this by saying that the question of American colonies today is "inoperable." In that case I take it Paraguay will support the Argentine position since he emphasized that it is not an important matter.

. . . . .

(9) . . . General Marshall, when Vasconsellos finished, inquired whether the Paraguayans were developing additional means of communication to the outside world. Vasconsellos said that it was possible and that Brazil is actually engaged upon the construction of a railroad that will connect Concepción on the Paraguay River with Santos on the Atlantic coast of Brazil. General Marshall inquired how much remained to be built and Vasconsellos stated the figure. He said that General Marshall added that that distance could be constructed in less than a year. Vasconsellos said that he agreed but that Paraguay would need assistance. He said that the United States could help by granting permission for the export of certain materials and supplies which Paraguay otherwise could not get. It was in connection with the railroad that Dr. Vasconsellos told me how he had explained to

General Marshall Paraguay's need for assistance from the United States. When he learned from General Marshall that it was not necessary to wait for the General's return in order to discuss Paraguay's need in the United States and to begin negotiations there, he sent Admiral Martino the following day to begin negotiations. He added that Admiral Martino is now at work in the United States.

My part of the conversation today was that of an attentive listener. I expressed pleasure in Dr. Vasconcellos' return to duty in Asunción, declared my satisfaction with the publication of articles regarding the Bogotá Conference which are now appearing in Asunción newspapers, and assured him that I would immediately communicate with the Department regarding the invitation for President-elect González.<sup>3</sup> Other than this my contribution was an occasional word or nod to keep the conversation going.

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<sup>3</sup> J. Natalicio González, who was elected in February, assumed the presidency on August 15, 1948.

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834.00/S-948 : Telegram

*The Secretary of State to the Embassy in Brazil*<sup>1</sup>

CONFIDENTIAL

WASHINGTON, August 9, 1948—7 p. m.

596. Brazilian Emb has informed Dept of rumors referred to in Asunción tel 369, Aug. 7, 7 PM<sup>2</sup> re alleged Argentine aggressive intentions against Paraguay and in support of Paraguayan revolutionaries. Brazilian Emb here was informed that Dept had no info of such an alarmist character and could not confirm these reports. There was some discussion as to whether this situation might properly be put before the "Committee of Five" established by Resolution 14 of Habana Consultative Meeting of 1940<sup>3</sup> (which recently held its first meeting in Washington) but no suggestions were made in this regard. Brazilians thought we might wish to inform Argentine Govt of our concern at these rumors. They were told the Dept would discuss the matter with Amb Bruce who is now in Washington. Dept expressed hope that all countries concerned would be bound by inter-American non-intervention commitments.

Telegraph substance any further discussions you may have with FonMin or high govt officials on this subject.

MARSHALL

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<sup>1</sup> Repeated to Buenos Aires as 723, to Montevideo as 161, and to Asunción as 138.

<sup>2</sup> Not printed.

<sup>3</sup> See resolution XIV, Final Act and Convention of the Habana meeting of the Ministers of Foreign Affairs, in the Department of State *Bulletin*, August 24, 1940, p. 136.



834.00/8-1148 : Telegram

*The Ambassador in Paraguay (Warren) to the Secretary of State*

CONFIDENTIAL

ASUNCIÓN, August 11, 1948—9 a. m.

374. ReDeptel 138, August 9.<sup>1</sup> Following comments submitted:

a. As already reported Embassy cannot believe situation as serious as Washington Brazilian Embassy evidently thinks. Furthermore, Brazilian Ambassador Asunción has same view American Embassy. We have reason to believe alarming information originated with Brazilian Ambassador Buenos Aires.

b. President Frutos<sup>2</sup> at lunch American Embassy yesterday said friends of Perón<sup>3</sup> along Paraguay River have been supplied arms by Argentine President but that their movement lacks popular support.

c. Frutos added Natalicio Gonzalez will take office fifteenth and he, Frutos, will resume presidency Supreme Court.

d. President added government has good control situation and that army is with government. He minimized sign painting Asunción streets night before last which he attributed to Communists.

e. He and Minister Foreign Affairs stated no Argentine delegate yet named which Frutos classified as a disrespect, rebuff to Paraguay.

f. As Department knows, Embassy is concerned long-range attitude Argentina toward Paraguay but does not believe any overt action against her imminent.

g. Embassy does not believe Department would be warranted supporting move bring situation before committee of five. We don't like present situation but do not consider any such move in best interest of Paraguay or Western Hemisphere.

Repeat to Army.

Sent Department 374; repeated Rio 29; Montevideo 15; Buenos Aires 69.

WARREN

<sup>1</sup> *Supra.*<sup>2</sup> Juan Manuel Frutos, elected Provisional President after President Higinio Morínigo was overthrown on June 3, 1948. For documentation on this situation, see pp. 108-111.<sup>3</sup> Juan D. Perón, President of Argentina.

834.24/7-1948

*The Secretary of State to the Paraguayan Ambassador  
(Morales)*

WASHINGTON, August 11, 1948.

EXCELLENCY: I have the honor to refer to Your Excellency's note D. 34 of July 19, 1948<sup>1</sup> in which authorization for the sale of various replacements and munitions for the Paraguayan Army is requested.

The possibility of making available to your Government all or part

<sup>1</sup> Not printed.

of the arms requested in your note under reference has been thoroughly explored by the appropriate departments of the Government of the United States. It is regretted that the arms desired by your Government do not exist in excess of those needed for the armed forces of the United States and that it is, therefore, impossible at this time for this Government to act favorably upon your request. In fact, the depletion of surplus military equipment as a result of transfers already arranged, and the expanded requirements of the armed forces of the United States, have brought about a situation in which virtually no surplus military material exists for transfer to foreign governments beyond the amounts for which commitments have already been made. (Some outstanding commitments for such transfers still exist and it may be expected that announcements of the culmination of those transactions will be made from time to time in the near future.)

In conveying this information, I wish, however, to inform you that the Department of the Army of the United States is preparing to make special arrangements in order to extend to the governments of the other American republics practical technical advice in connection with the acquisition of reasonable amounts of military equipment, needed for their national defense, from commercial sources in the United States. The Department of the Army has been informed of your Government's interest in the acquisition of certain armaments and will be pleased to discuss the matter with appropriate representatives of your Embassy when the arrangements referred to above are completed.

Your Excellency is advised that under law all arms, ammunition and implements of war defined by the President's Proclamation No. 2776 dated April 15, 1948 can be exported from the United States only with a license issued by the Department of State. The Department stands ready, within the limits of existing national policy, to give sympathetic attention to any requests for export licenses of reasonable and necessary amounts of military equipment which your Government may wish to procure from commercial sources in the United States. Any requests for export licenses should be directed to the Department of State.

Accept [etc.]

For the Secretary of State:  
ROBERT A. LOVETT

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711.34/9-2848 : Telegram

*The Ambassador in Paraguay (Warren) to the Secretary of State*

SECRET

ASUNCIÓN, September 28, 1948—2 p. m.

423. President Gonzalez called me to Palacio this morning told me following in secret.

The international situation looks bad, seems to be growing worse. Another war may be imminent. In such case he offered us Paraguay's full cooperation (I said situation appears bad but I hoped war would not eventuate). In any event he offered civil and economic cooperation extent Paraguay's ability. She ready increase her production along lines we might indicate and grant us air bases. He thinks Argentina would be against USA in event war and said it behooves Paraguay help USA while she fighting the battle of all the American republics. He suggested we might help Paraguay complete road to Iguazu as defense measure view Paraguay's strategic position in South America. Also mentioned Paraguay tannin (quebracho extract) saying we could help by taking all her production thirty to forty thousand tons instead of buying Argentina's. Paraguay desirous and would be able help Great Britain by selling her more products if USA could exchange dollars for five to six million pounds sterling over period two years, to be spent in USA. He radioed Paraguayan Embassy Washington re increased Paraguayan sales under Marshall Plan.

I thanked President, said would inform Washington today. Added I feared too early Washington say anything. He said nothing might occur and hoped for sake Paraguay, USA and all others war would not eventuate but he wanted USA know his Paraguay's position.

Reply my sounding he said does not believe Perón plot accusations and connected them with Argentina's bad economic situation adding she shorter dollars than Paraguay. President left impression he will submit all this information to Ambassador Morales.

*Comment:* In offering foregoing President said he is always looking out for interests his country. I assured him that was what we expect of him and every other nation but USA is still hopeful war will not come.

Repeat to Army.

WARREN

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834.51/10-748

*Memorandum of Conversation, by Mr. R. Kenneth Oakley, of the  
Division of River Plate Affairs*

[WASHINGTON,] October 7, 1948.

Participants: Dr. Juan Morales, Paraguayan Ambassador  
Sr. Atilio Montania,  
First Secretary of the Paraguayan Embassy  
RPA—R. Kenneth Oakley, Narrator

*Summary*

Paraguayan Ambassador Morales informally requested Mr. Oakley's advice and assistance in obtaining technical help in the preparation of



a loan request. He has given up hope that his Government can reconcile varying opinions and can prepare a study technically adequate. Mr. Oakley suggested the possibility of obtaining the services of two US Treasury officials under Public Law 63, to study taxation and fiscal matters and to formulate recommendations. He also suggested that the International Bank be requested to send technical experts to prepare the plan, to cover agricultural development and increased immigration. The Ambassador indicated he would make these recommendations to his Government and expected a favorable reply.

*Narrative*

I learned that Ambassador Morales had not yet made any effort to obtain the loans from private sources which, even before reaching the United States, he had told me he would seek. Apparently, this was due to lack of detailed information from Asunción. He stated, however, that he was about to initiate vigorous efforts in this direction. He explained that he would seek an International Bank or Export-Import Bank loan only for basic development. He thought that industrialization loans could easily be obtained from private sources. By basic development he referred especially to agriculture and the encouragement of limited and selected immigration for agricultural development. I indicated that the Department probably would approve of this approach since Paraguay is hardly in a position to become an industrialized nation and because it prefers to see private rather than government initiative in this field.

At this point the Ambassador waxed somewhat eloquent on the question of industrialization. He stated that Paraguay has no ambition to become an industrialized nation, at least for some time. However, it does hope for the establishment of industries for the first processing of materials produced in the country. For example: for the tanning of hides and skins, for making thread from Paraguayan cotton, for converting timber into lumber for export, etc. I agreed, of course, that this development would be salutary if accomplished by private capital.

The Ambassador then launched into an explanation of the considerations involved in the establishment of the *Administración de Empresas Fiscales*. He stated that, unlike the United States and other more developed countries, Paraguay has insufficient private capital and, furthermore, that existing capitalists are not interested in new enterprises. Therefore, the State is obliged to enter into such fields. As a consequence, and also to accomplish the better administration of existing State enterprises such as the Concepcion-Horqueta railway, the *Administración* was set up. The Ambassador himself was one of the architects of that piece of legislation which, on his advice, was

modelled on a Chilean state organization which he had previously studied.

I stated that I could understand this decision of the government but felt that the provisions of the law were a detriment to new private investment and were widely interpreted as a step toward state participation in private industry. Again, the Ambassador was eloquent. He stated that he had been Minister of Industry for three years, a term of service probably longer than that of any other Minister, and that he had been a long-time friend and colleague of President Gonzalez. Therefore he thought he could speak for his Government in saying that the aforementioned law in no sense is designed to interfere with private business. He mentioned a phrase in the "Considerandos" of the law, to that effect. He also stated that the fields of action of the *Administración* are limited to those specifically mentioned in the creating law. I stated, however, that some of the language of the law, particularly the use of the word monopoly, intentionally or not, has given the impression mentioned above, to most observers. The Ambassador admitted that this is probably the case and stated that the law probably could be modified.

I mentioned, then, the current case of the West India Oil Company as an example. Under the aforementioned law the government proposes to undertake a monopoly of the distribution of petroleum products. Although the government monopoly then would grant a distribution concession to the West India, the Company would lose its freedom of operation to such an extent that it insists it is not interested in staying in Paraguay under those conditions. The Ambassador stated that his Government had no purpose other than to assure an adequate supply of petroleum products at all times. He specifically mentioned the fact that during the 1947 Civil War the Government almost lost the struggle because of West India's failure to maintain adequate supplies. He added that the Government questions the good faith of the Company in this instance.

I stated that I had some contact with this problem while in Buenos Aires and thought that the Company had acted in good faith. The Ambassador stated that, even admitting good faith, the facts stood as testimony to the inadequacy of present arrangements. I stated that West India was now postponing the plans for increased storage space designed to meet that need, the postponement being caused by the threatened application of the new State monopoly, under which the Company does not wish to have an augmented investment. The Ambassador dismissed this summarily on the grounds that West India has been talking of this increased storage for years, and that he questions whether it amounts to anything more than talk.

I stated that there must be other ways of achieving security of supplies, rather than by creating a government monopoly. The Ambassador said probably this is the case but, if so, West India should propose another solution to the government. My reply was to the effect that the government had proposed to initiate the monopoly, and that conversations with West India officials, therefore, had necessarily been limited to whether the Company would accept, or if it preferred to leave Paraguay. I stated that, in my personal opinion, the government should state its aims and purposes to the West India Company and should ask the Company to propose a means of achieving those aims. I reiterated that my purpose in mentioning this case was simply that of pointing out in a friendly, informal way, some of the deterrents to prospective investors and lending banks.

The Ambassador seemed very pleased with the entire conversation. He assured me that he was going to take up all these matters with his Government at once, and that he expected quick action on the matter of contracting technicians. I told him that, with his permission, I proposed to bring his comments to the attention of Mr. Daniels and Mr. Tewksbury and other interested officials of the Department. I assured him that all offices of the Department are entirely sympathetic with Paraguay's basic needs, and that I was sure the approach envisaged by the Ambassador would receive every possible assistance.

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823.00/11-348 : Telegram

*The Acting Secretary of State to the Embassy in Paraguay*

CONFIDENTIAL

WASHINGTON, November 3, 1948.

166. Current Paraguayan political situation<sup>1</sup> concerns Dept because possibility continued unrest might result chaos benefiting only Communists. Important remember Communist activities Latin Amer-

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<sup>1</sup> In a memorandum of November 10, 1948, on developments in Paraguay since October 10, Mr. Oakley of the Division of River Plate Affairs stated :

"The political scene in Paraguay in the past 30 days has been one of near-anarchy. The *Guion Rojo*, a minority of the Colorado Party which alone now operates openly, has been split into three factions. Maneuvers to enlist Army and other support, sensational removals from office and movements of troops, and more exiled political leaders—all culminated in an armed revolt by a portion of the Army allied with one of the three *Guion Rojo* factions, on October 25. The revolt was crushed after 20 hours of bloody fighting (about 28 killed and 160 wounded), looting and the greatest property damage in many years. Some of the military failed to deliver the support believed to have been promised.

"There is little to note about the Paraguayan economic situation except that the political anarchy has, of course, had an undesirable effect. Furthermore, the extremely low level of the Paraguay River, and especially the resulting severe shortage of gasoline, has had very serious repercussions on trade." (834.00/11-1048)



ica merely military tactic "spread confusion rear enemy" (US) and not designed build Communist Party which entirely expendable. Therefore, US has reason in addition interest general well-being Paraguay, hope Paraguayans find solution and measure stability. They alone best able solve internal problems.

LOVETT

S34.154/11-1048

*Memorandum by the Chief of the Division of Brazilian Affairs (Clark) to Mr. R. Kenneth Oakley of the Division of River Plate Affairs*

[WASHINGTON,] November 12, 1948.

I have your memo dated November 10<sup>1</sup> regarding the recent conversations between Ambassador Warren and the Paraguayan President concerning the desire of Paraguay to receive further assistance from this Government. I note that this assistance might take the form of, I presume, financial aid in the construction of a road from Villarrica to the Brazilian border at Iguazu.

During my assignment to Paraguay,<sup>2</sup> the road from Asunción to Villarrica, which was constructed by the Hebard Company of New York City, was completed. At that time, and particularly towards the conclusion of this construction contract, there was considerable talk about the possibility of extending the road from Villarrica south to Encarnación and from Villarrica east to Iguazu. There seemed to be no physical features discouraging the extension of the road to Encarnación, although it would have more or less paralleled the railway and for that reason at that time this project was put in suspense.

The much discussed road from Villarrica to Iguazu is an entirely different matter. The Paraguayans have long desired such a road as it would give them a direct connection with Brazil and such a road would eventually connect up with a Brazilian road which is being slowly pushed into Iguazu from, I believe, Guarapuava. So far as I know, this Brazilian road will not be completed for some years and the practical utility of the branch from Iguazu to Villarrica in Paraguay until the connection is made would be very doubtful. However, of considerably more importance is the problem of the type of country which lies between Villarrica and Iguazu in Paraguay. It is perfectly true that there are vast open areas with no hills or mountains. However, Mr.

<sup>1</sup> Not printed.

<sup>2</sup> 1942-1944.

Frank Stratton, who for several years was the Managing Director of the Hebard Company in Paraguay and had under his full supervision the construction of the Asunción-Villarrica road, cruised the area between Villarrica and Iguazu in considerable detail, and I distinctly remember his telling me that in his opinion the construction of this road would be extremely difficult and very expensive. Apparently there are large areas which are swampland in the sense that during certain times of the year when rains are fairly heavy the lack of any drainage results in large sections becoming almost bottomless bogs. Mr. Stratton spoke of the probable necessity of foundation work which would presume the transportation of large quantities of stone or cement. In his judgment, the cost of building such a road would be far in excess of either its economic or political value.

I fully realize that the Paraguayans in discussing this matter are prompted by an ever-present desire to gain more independence of Argentina by establishing direct communications with Brazil. However, for the time being I seriously question the practicability of this proposed road from Villarrica to Iguazu, not only because construction difficulties in Paraguay probably would be enormous but also in view of the fact that the Brazilian road leading up to Iguazu has not been finished and probably will not be for several years. This latter consideration, that is the Brazilian program, was confirmed on Wednesday, November 10, during a conversation with the Brazilian Ambassador, Mauricio Nabuco.

DuWAYNE G. CLARK

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711.34/9-2848

*The Acting Secretary of State to the Embassy in Paraguay*

CONFIDENTIAL

WASHINGTON, November 19, 1948.

No. 85

SIR: The Acting Secretary of State refers to the Embassy's telegram no. 423 of September 28, 1948 reporting a conversation with President Gonzalez in which the President offered Paraguayan civil and economic cooperation with the United States in the event of war which the President thought might be imminent. As indicated in the Department's telegram no. 153 of October 1,<sup>1</sup> the Department appreciates this expression by President Gonzalez. The following observations concerning the specific points raised by the President in the conversation under reference are not intended to constitute a definitive

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<sup>1</sup> Not printed.

expression of the Department's views on these matters, but are set forth merely for the Embassy's information as to current thinking in the Department.

The extent to which Paraguay is of strategic importance to the United States currently is being reconsidered by the Department. To some degree this problem is covered in the recently revised statement of United States policy toward Paraguay,<sup>2</sup> a copy of which is being sent the Embassy under separate cover. From a military standpoint the question is touched upon in a memorandum of June 8, 1948 from the Chief of Staff of the Army Air Forces<sup>3</sup> which stated, in part, "Consideration of hemispheric defense plans from an Air Force point of view does not appear to warrant the expenditure of US funds in the establishment of an air base in Paraguay." This, however, does not evaluate further strategic considerations such as that raised by President Gonzalez and reported in the Embassy's telegram under reference, suggesting that "We might help Paraguay complete road to Iguazu as defense measure view Paraguay's strategic position South America." This aspect is now being discussed with the National Military Establishment and the Embassy will be advised of the conclusions reached.

The Department would appreciate the Embassy's views on possible ways in which Paraguay might cooperate with the United States in the event of an international emergency or war. It might be well particularly to examine the situation with regard to the Communist-infiltrated Slav groups, especially those in the southeastern part of Paraguay.

The Department understands President Gonzalez's suggestion that the United States purchase all of Paraguay's quebracho extract production, "instead of buying Argentina's", to be related to his stated opinion that Argentina "would be against USA in event war." The Department interprets the President's remarks to mean that Argentina would not be aligned with the United States, rather than that Argentina would be an enemy state. (In the latter case the United States would have no opportunity to purchase Argentine products.) With this understanding, the question arises as to how Paraguayan exporters could terminate their present agreement with Argentine exporters dividing the export market on a quota basis and at an agreed price. In view of Paraguay's economic dependence on Argentina this might be a difficult matter. Furthermore, the question of the export of quebracho extract via the River Parana, where transport facilities are virtually monopolized by an Argentine company, might present an additional problem. Presumably this is one place where a road to

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<sup>2</sup> Not printed.

<sup>3</sup> Gen. Hoyt S. Vandenberg.



Iguazu, and thence to a Brazilian port, would be of strategic importance. However that may be, such contingencies can hardly be discussed with the Paraguayan Government at this time, although the Department and the National Military Establishment naturally must take them into account in considering the proposed road to Iguazu.

In connection with this highway proposal, the Embassy's attention is invited to a memorandum from Mr. Clark to Mr. Oakley, within the Department, dated November 12, 1948, a copy of which has been furnished the Embassy.

In an effort constructively to consider means of improving Paraguay's current economic situation, the Department has discussed informally with the Bureau of Federal Supply and the Munitions Board, possible additional purchases of Paraguayan quebracho extract. It has been learned that the present United States stockpile of this strategic material is relatively ample and that purchases were discontinued approximately six months ago when the price was raised from eight and one-half cents per pound to thirteen cents per pound. The Department understands that neither the Bureau of Federal Supply nor industrial users of this commodity intends to resume purchases until prices fall below ten cents per pound. However, industrial users may be forced to resume limited purchases when present stocks have been exhausted.

If quebracho extract prices should be quoted at more reasonable levels, it is believed that the Paraguayan production of this commodity could be disposed of in the United States. However, United States purchasers would buy on the basis of best available price. Therefore, the problem again seems to be one for the Paraguayan and Argentine exporters who have price and quota agreements for the export trade. The Embassy's further comments on this matter would be appreciated by the Department.

The Department notes that, according to President Gonzalez, Paraguay is "ready increase her production along lines we might indicate. . . ." The Department has carefully considered this proposal but is not now in a position to encourage the increased production by Paraguay of any specific commodity. It does, however, emphasize the important desirability of Paraguay's cooperation with oil exploration activities and, eventually, with the exploitation of any petroleum deposits discovered.

Nevertheless, the Department will appreciate a report from the Embassy discussing the possibility of increasing Paraguayan exports, especially to the United States.

The Department appreciates Paraguayan willingness to assist Great Britain with its economic difficulties by selling increased amounts of Paraguayan products to that country. However, the Department cannot now consider the possibility of purchasing sterling from Paraguay

even with dollar credits. The Embassy will understand that Paraguay's problem in this respect is almost identical with that of many other countries where the amounts involved are tremendously greater. The United States could not embark lightly on a program to purchase large amounts of British sterling.

Several weeks ago the Paraguayan Embassy in Washington informally inquired at the Department concerning how Paraguayan sales might be increased under the European Recovery Program.<sup>4</sup> The Embassy has not renewed these inquiries since it was told that the Economic Cooperation Administration does not make purchases but merely authorizes the use of dollar allotments for purchases of specified commodities from given countries. The following additional information might be useful to the Embassy in its discussions with the Paraguayan Government on this matter.

ECA, in authorizing the use of dollars for offshore purchases, must give primary consideration to the recovery of OEEC countries rather than to any benefit which might accrue to countries receiving the dollar exchange. Thus ECA cannot authorize dollar purchases from Paraguay on the basis of assisting that country. Furthermore, ECA cannot authorize purchases of commodities officially declared to be surplus in the United States. Cotton, for example, is a surplus commodity in that sense. Under separate cover the Embassy is being furnished information concerning ECA authorizations to date for purchases from Paraguay. It is also perhaps worthy of mention that ECA generally is more ready to authorize purchases from a given country to the extent that that country will accept OEEC products in payment for its exports.

In short, the tentative proposals of President Gonzalez do not seem to offer great possibilities. The Department would find greater hope in any improvement in political conditions and stability in Paraguay, and from rational, basic development projects.

Very truly yours,

For the Acting Secretary of State:

PAUL C. DANIELS

*Director for American  
Republic Affairs*

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<sup>4</sup> For documentation on this subject, see volume III.

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711.34/12-148

*The Secretary of Defense (Forrestal) to the Secretary of State*

SECRET

WASHINGTON, December 1, 1948.

DEAR MR. SECRETARY: This is with further reference to your letter of 20 October 1948<sup>1</sup> requesting the views of the National Military

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<sup>1</sup> Not printed.

Establishment concerning the degree to which Paraguay is strategically important to the United States.

In assessing the degree to which Paraguay is of strategic importance to the United States, its relationship to the Western Hemisphere must be considered with respect to two categories :

- a.* As an element of the hemisphere defense structure, and
- b.* As a source of strategic and critical materials.

A hemisphere defense structure implies integration of the member nations for common defense. However, from a geographical and a war potential viewpoint, Latin American nations are not of equal importance to United States security. The size, location, and war potential of Paraguay relegates that nation to a very low category in this respect excepting in the unlikely event that Argentina should ally herself with our enemies in war.

As a source of raw materials Paraguay has considerable actual and potential importance to the industry of the United States. She is one of the two world sources (the other source being Argentina) of quebracho extract, an agent essential in the tanning of leather and an emulsive used in oil well drilling operations. For either purpose there is as yet no better chemical substitute.

Paraguay also is important as a passageway to valuable deposits of high-grade manganese ore located close by in Corumba, Brazil. It is possible to transport ore from these deposits by rail to Brazilian ports; however, a cheaper method is by barge down the Paraguay River to a port at the mouth of the Plata River. The Corumba deposits are of particular interest to the United States not only because of their quality and extent but also because of their availability to the United States in the event of an emergency.

Based upon the foregoing considerations, the Joint Chiefs of Staff and I are in agreement that Paraguay's strategic importance is primarily as a source of certain strategic and critical materials.

The matter of whether aid and assistance should be given to Paraguay along the lines implied by President Gonzalez is primarily a political question. It would be in the United States military interest to assist a stable Paraguay and all other members of the hemisphere defense structure to achieve sound economies and to maintain those armed forces which are required for internal security and for hemisphere defense tasks. However, purely military considerations are not sufficient to justify the assistance desired by the President of Paraguay.

Sincerely yours,

JAMES FORRESTAL



734.35/12-1348: Airgram

*The Ambassador in Paraguay (Warren) to the Secretary of State*

CONFIDENTIAL

ASUNCIÓN, December 13, 1948.

A-422. When I saw President González on the afternoon of December 10, 1948, he told me that the Argentine Ambassador, Dr. J. Isaac Arriola, had been to see him at the request of President Perón. The Ambassador told President González that President Perón was aware of the rumors and stories going around regarding Argentina's aggressive intentions against Paraguay and that he wanted Sr. González to know that there was no truth in them. President Perón is the friend of President González and will not permit anyone to foment from Argentina outbreaks against Paraguay. President González told Ambassador Arriola that he was glad to have the Perón assurances because he (González) had also heard the rumors and stories.

WARREN

834.34/12-1748

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*The Acting Secretary of State to the Embassy in Paraguay*

No. 91

WASHINGTON, December 17, 1948.

SIR: Reference is made to previous correspondence (especially the Department's airgrams A-85 of May 7, 1947 and A-36 of March 15, 1948<sup>1</sup>) concerning six picket boats which were leased to the Paraguayan Government in September 1945 under a Charter Party Naval Lend Lease Agreement signed between the Paraguayan and the United States Governments.

On January 21, 1948 the United States Government offered to sell these six picket boats to Paraguay, by a letter from the Foreign Liquidation Commissioner to the Paraguayan Naval Attaché in Washington. The sale price offered was a total of \$6,750 U.S. for the six boats. This price was reached under a formula being uniformly applied in the settlement of all such Charter Party Naval Lend Lease Agreements, and represented approximately 5% of the original purchase price. Although the Office of the Foreign Liquidation Commissioner and the Department of State informally attempted on several occasions to obtain an early reply, it was not until November 29, 1948 that a letter was received from the Paraguayan Military Attaché (there is not now a Naval Attaché attached to the Paraguayan Em-

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<sup>1</sup> Neither printed.

bassy) in response to the offer. Copy of that reply is attached; <sup>2</sup> it will be seen that the offer of this Government has not yet been accepted. However it is noted that the Paraguayan Government by decree no. 19,090 of April 7, 1947 authorized the purchase of these launches for a total price of \$6,600 U.S. Informally it has been learned that there still are no funds available to the Paraguayan Embassy in the United States for carrying out the terms of this decree. The Foreign Liquidation Commissioner acknowledged the letter from the Paraguayan Military Attaché on December 3, suggesting that an early date be arranged for the signing of the contract, payment and transfer of title. A copy of this letter also is enclosed.<sup>2</sup>

Since this decree is more than twenty months old, the question arises as to whether Paraguay is still interested in the acquisition of these launches. It is the Department's understanding that at one time Paraguay was considering returning these vessels to the United States since it found them too fast for river use and too expensive to operate, all being powered by gasoline engines.

At various times the Uruguayan Government has manifested some interest in acquiring these vessels. If Paraguay does not want to purchase them, the OFLC probably would sell them to Uruguay. A sale to Uruguay would release Paraguay of the obligation and expense in connection with returning the vessels to a port in the United States since they could be delivered to a Naval Attaché in the area, probably Montevideo.

However, the Department must of course know whether Paraguay is still interested in acquiring these vessels and when funds are expected to be available.

The Department of the Navy is urgently pressing for an early liquidation of this phase of lend lease, and the Department of State also is anxious to terminate this matter since the time for selling these vessels at surplus property prices is rapidly drawing to a close.

You are requested in your discretion to discuss this matter with the appropriate Paraguayan officials including, if necessary, the President. You should urge that a definitive reply to the OFLC offer be made as soon as possible and that steps be taken to conclude a contract of purchase, and for the payment of the purchase price. While there is a difference of \$150 between the offer of this Government and the sum mentioned in the Paraguayan decree, the latter will be acceptable if the sale can be terminated promptly. The Department is prepared to transfer title immediately upon receipt of that sum. It should be noted that the agreed price is probably less than the expense the Paraguayan

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<sup>2</sup> Not printed.

Government would incur in returning the vessels to a port in the United States.<sup>3</sup>

Your early reply will be appreciated.

Very truly yours,

For the Acting Secretary of State:

ROBERT F. WOODWARD

*Acting Director for*

*American Republic Affairs*

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<sup>3</sup> In despatch 266, June 21, 1949, the Chargé in Paraguay (Randolph) transmitted a bank draft for \$6,600.00 covering the Paraguayan Government purchase of six picket boats (834.34/6-2149).



## PERU

### ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND PERU

823.6363/2-948

#### *Memorandum of Conversation, by the Secretary of State*

RESTRICTED

[WASHINGTON,] January 27, 1948.

Participants: The Secretary of State, the Ambassador Designate of Peru, the Chargé d'Affaires of the Embassy of Peru, and the Chief of Protocol.

The Chief of Protocol<sup>1</sup> presented to me today at 12:00 noon, His Excellency Señor Don Alfredo Ferreyros Ayulo, the new Peruvian Ambassador to the United States. Señor Ferreyros was accompanied by the Peruvian Chargé d'Affaires, Señor Fernandez-Dávila.

After an exchange of courtesies the Ambassador said that he had come to his post in Washington as a businessman rather than a diplomat. I told him that this was good as the relations between our countries were now those of business. The foundations in other respects had already been laid in this hemisphere and business between our nations was now the important question of the day. I told the Ambassador that I would speak to him very frankly. We had used our natural resources to the limit during the war, especially petroleum. The Air Force tanks and the Navy had consumed huge quantities, and we had just poured it out. I said that my information was that we would have to depend more and more upon outside sources for future supplies of petroleum. Oil fields had been opened up in the Near East, but that was an area which was none too secure and where changes might take place. Natural resources in this hemisphere had not been developed to the extent that they could be and should be. I said that I understood the political bugaboo, raised usually by the opposition to the Government in office, but that some way should be found to resolve this problem. We were not interested in how this was done, in the method or the means by which the Latin American countries developed their resources. All I was interested in was that the resources should be developed. If this meant foreign investments let it be foreign investments, and if the countries concerned felt that safeguards must be taken against foreign investments let them take safe-

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<sup>1</sup> Stanley Woodward.

guards. I said that I thought the United States might serve as an example of development through foreign investments, our economic system had been largely developed in this way. I cited the railroads and the cattle industry as examples. \$350,000,000 had been invested by the British in the cattle industry in Arizona alone. From 1867 until very recent years the history of the American railroads was a story of foreign investments. If one looked at this country today one could certainly not say that we suffered from such investments. Furthermore, our people now hold control of the entire economic system and derive the benefits therefrom. Mexico, I said, showed the opposite. The oil industry had gone into Mexico, the Mexican Government had expropriated the oil properties and production was now about thirty percent of what it was formerly, and an entirely new start would have to be made. Brazil, I also mentioned, was producing oil, but on a very small scale, and that was not what I meant when I spoke of the development of the natural resources of the countries in this hemisphere.

The Ambassador stated that he greatly appreciated my talking to him in this way and that he agreed with what I had said.

I thanked him and said that the whole matter was now of importance for reasons of security, for the economic well-being of all concerned, and that it was a subject that would surely come up at the Bogotá Conference.

G[EORGE] C. M[ARSHALL]

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823.6363/2-1648

*Memorandum of Conversation, by Mr. George H. Owen of the  
Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] February 16, 1948.

Participants: Señor Alfredo Ferreyros Ayulo, Peruvian  
Ambassador

Mr. Norman Armour, Assistant Secretary of State

Mr. James Espy, Acting Chief, NWC

Mr. George H. Owen, NWC

After a brief exchange of politically indifferent remarks, Ambassador Ferreyros referred to the views recently expressed to him by the Secretary of State regarding the development of oil resources\* and stated that he had reported his conversation with the Secretary to his government. The Ambassador said he would cooperate fully with the United States government in accordance with the Secretary's views.

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\*Memorandum of conversation (NWC) between Secretary of State Marshall and Ambassador Ferreyros. [Footnote in the source text.]

He said that the Peruvian government was fully aware of the need for undertaking development of oil resources, that the difficulties encountered in the instance of the Sechura concession were due to the fact that it was "badly handled."<sup>1</sup> He said that, as the Secretary had remarked, questions of oil concessions are subject to the "cross currents" of domestic politics, that factions exploit these transactions for political ends and that his government realized it was essential to divorce the matter of the concession entirely from politics. He said that in his opinion it would have been better for the Peruvian government to settle the question of "the law" first, and then proceed with the Sechura contract. (This was apparently a reference to the revision of basic petroleum legislation which is now being considered by the Peruvian Government.)

The conversation then turned to the Peruvian Government's interest in obtaining an increased quota of United States wheat. In this connection Mr. Armour pointed out the extremely difficult world situation with respect to wheat distribution, in particular the critical shortage of wheat in several European countries. Ambassador Ferreyros then said that Peru had found it onerous to seek to fill its wheat requirements from Argentine supplies, because Argentina linked the supply of this commodity to other economic transactions in the interest of Argentina. He referred to the Peruvian-Argentine trade agreement, which, he said, has not yet been signed, and under which Argentina promises loans for economic development, in particular the Chimbote coal development project. He said he believed Argentina would finally not grant the loans anyway. In exchange for wheat Argentina desired right of preemption of Peruvian oil production.†

Mr. Armour brought up the connection between Argentine economic policies and the European Recovery Program by pointing out that if countries like Argentina participated more effectively in aiding Europe by supplying the direly needed commodities at reasonable prices, there would be less of a strain on United States resources, and the United States would be in a position better to supply the needs of other American republics. Mr. Armour went on to say that as soon as the exact terms of our Marshall Plan for European recovery<sup>2</sup> are

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<sup>1</sup> In 1947, in the Peruvian Congress, approval of a concession to International Petroleum Company (Standard of New Jersey) for the development of oil resources in the Sechura Desert was defeated by the opposition. The Government favored the concession, but political opposition thereto was sharpened because the Apra Party supported it (Memorandum of October 15, 1948 by George H. Owen, 711.23/10-1548).

†The Ambassador's remarks in connection with Argentine-Peruvian trade negotiations are borne out by U.S. Embassy Lima Telegram 904, Dec. 31, 1947 and especially CIG report SO 11260. [Neither printed. Footnote in the source text.]

<sup>2</sup> For documentation on this subject, see volume III.



determined, we may find many instances where this plan will provide relief for special economic situations in Latin America, such as, for instance, providing export markets for Peruvian sugar.

The Ambassador then indicated the desire of his government to receive assistance for economic development from the United States. He mentioned the consideration now being given to loans from the Export-Import Bank for needed equipment, in particular for the Chimbote coal development. He said he had not yet approached the Export-Import Bank on these matters. Mr. Armour said that the Department would be glad to consider the question of these loans and take it up with the Export-Import Bank.

The conversation returned to the subject of oil when the Ambassador also indicated the desire of Peru for such financial assistance in connection with oil development. At the close of the meeting Mr. Armour clearly stated and Mr. Espy reiterated to the Ambassador that it would be extremely unlikely that any Export-Import Bank financial assistance could be given in connection with oil development, since loans for this purpose were against the policy of the Bank, in view of the risks involved in oil development and since the utilization of private capital appeared to be the most expedient form of development of oil resources.

Ambassador Ferreyros then turned to his government's request for an increase in Peru's quota of sugar imports into the United States. He had brought with him a lengthy and elaborate note<sup>‡</sup> on this point which he left with Mr. Armour. He said that his government's complaint was directed against the Act of 1947 under which Peru's share of United States sugar imports is 15,000 tons, as against 50,000 to 60,000 tons of Peruvian sugar imported annually into the United States before the war under the Act of 1937. Mr. Armour said he would direct that the matter be studied. Mr. Armour mentioned the agreement negotiated last week for the purchase of 33,000 long tons of Peruvian sugar by the United States government for the Army for use in the occupied areas. The Ambassador said that Peruvians had been extremely pleased by the news of this transaction. He added that the request of his government related to a somewhat different aspect, namely, Peru's permanent share in the United States domestic sugar market.

The Ambassador finally referred to his government's interest in the Peruvian fish canning industry which was of relatively recent creation, thanks to United States assistance during the war. He said that a considerable amount of capital, United States as well as Peruvian (in-

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<sup>‡</sup>Note of Peruvian Embassy to the Secretary of State, dated February 16, 1948. [Not printed. Footnote in the source text.]

cluding Gildemeister interests), was invested in this industry. He said that under United States Government classification (Food and Drug Administration) the fish canned in Peru was mostly bonito rather than tuna. His government took no issue with this classification, but did object to the unfavorable tariff treatment given to bonito. He said the United States tariff duty on tuna is 22½% *ad valorem*, as against 30% *ad valorem* on bonito. § He said that Peruvian canned bonito was shipped to the United States unlabelled and sold here under various brand names. Mr. Armour said that he would have the situation with respect to these tariff duties ascertained as well as the possibility of modifying existing duties in accordance with this Peruvian request.

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§The duty rates mentioned by the Ambassador are correct. The rate for tuna was reduced to 22½% *ad valorem* by the Trade Agreement with Mexico. The rate for bonito (valued at under 9¢ per lb.) was reduced from 44% to 30% *ad valorem* by the Geneva Agreement of October 30, 1947. The rate for bonito could be further reduced without congressional action, by modification of a Trade Agreement, for instance our Trade Agreement with Peru. However, the rate for bonito valued at over 9¢ per lb. was reduced by the same action from 30% *ad valorem* to 21% *ad valorem*. In view of the Ambassador's request it would appear that Peruvian bonito is valued under 9¢ per lb. [Footnote in the source text.]

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S23.61351/4-248

*The Ambassador in Peru (Cooper) to the Secretary of State*

CONFIDENTIAL

LIMA, April 2, 1948.

No. 263

SIR: I have the honor to refer to the recent purchase by the Commodity Credit Corporation of 33,000 long tons of Peruvian sugar, and to the Department's memorandum of conversation dated March 3, 1948<sup>1</sup> conveying remarks of the Ambassador of Peru in Washington on the subject of sugar.

As reported previously by the Embassy (A-756, December 19, 1947<sup>1</sup>), the Sugar Act of 1948 evoked much critical comment in Peru concerning United States trade policy. In an effort to mitigate such criticism, which threatened to influence unfavorably our relations in Peru, the Embassy encouraged the projected United States purchase of Peruvian sugar for use in occupied areas, and on February 17 released to newspapers the announcement of the offer by the Commodity Credit Corporation (Department's telegram No. 74, February 13, 1948<sup>1</sup> to purchase 33,000 long tons of raw sugar from Peru. This announcement received extensive and satisfactory publicity, along with favorable editorial comment. Representatives of the sugar industry and

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<sup>1</sup> Not printed.

of the Peruvian Government since then have mentioned their appreciation of this aid toward providing a dollar market, and the newspapers have discontinued their former strong criticism regarding this aspect of United States commercial policy.

The exceptionally favorable reaction can be attributed partially to the public's misapprehension that Peru was having difficulty in selling its sugar during 1948. This misapprehension was fostered by newspaper criticism of the Sugar Act and by complaints of the sugar industry following the drop last year in prices. Actually, the market situation for Peruvian sugar in 1948 has been consistently good, with dollar markets outside the United States readily available for the entire crop. In fact, the industry sold the 33,000 long tons of sugar to the Commodity Credit Corporation primarily to "save face" following its complaints against the lack of a United States sugar market. According to producers, this quantity was made available only by dropping negotiations for sale of the same sugar to European buyers at prices higher than the four cents per pound paid by the CCC.

The purchase by the CCC has improved our political as well as commercial relations with Peru, and has had a highly beneficial effect in curbing unfavorable newspaper comment respecting United States commercial policy. Very likely the subject will not receive much further public attention during the balance of 1948, although it will of course be important again when 1949 market prospects become dominant in the situation, especially when the United States announces import quotas for 1949.

Respectfully yours,

For the Ambassador:  
C. A. BOONSTRA  
*Agricultural Attaché*

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823.6363/3-2348: Airgram

*The Acting Secretary of State to the Embassy in Peru*

SECRET

WASHINGTON, April 13, 1948.

A-146. Reference Embassy's airgram A-150, March 23, 1948.<sup>1</sup> The Department commends the Petroleum Attaché for progress on difficult negotiations and excellent reports covering the same.

The Department believes that petroleum development can be best promoted through the media of sound petroleum laws and private enterprise operating on a free, competitive and non-discriminatory basis, as outlined in circular telegram of March 26, 1948.<sup>2</sup> Pending a decision of the Peruvian Government to abandon enactment of a new petroleum law and its efforts to obtain ratification for the Sechura

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<sup>1</sup> Not printed.

<sup>2</sup> *Ante*, p. 243.



Desert Contract, the Department believes the Embassy should continue to support oil development on the basis just indicated.

Circumstances may require the acceptance of a less desirable substitute such as the transfer of the Montaña areas to the proposed Compañia Petrolera Fiscal in order to provide a basis for contract negotiations with operators. It is not within the function of the U.S. Government or any of its agencies, however, to underwrite the risk that resulting contracts may be illegal. It appears that CPF or the Peruvian Government might properly guarantee the repayment of all or the major part of the expenses actually incurred by operators in the event exploration contracts were declared illegal. There is a logical basis for a guarantee of this sort since the guarantors would also be beneficiaries if the contracts were voided through legal complications.

With reference to financing, there is no reason to believe that ample funds will not be forthcoming from the operating companies provided reasonably acceptable contracts can be negotiated.

The Department is not clear regarding the status of the Sechura Desert Contract under the proposed Decree Law as outlined in airgram A-172, April 6, 1948.<sup>3</sup> On the basis of paragraph 3 of airgram A-145, March 18, 1948,<sup>3</sup> it appears that the Sechura area will be transferred to CPF only if the attempt to obtain Congressional ratification of the *ad-referendum* contract during the coming July session fails. Is the Department's interpretation correct that if the contract is not ratified, it will be terminated and that area will then be transferred to CPF presumably for exploration and development on the basis of the highest bidder.

The availability of Eximbank funds for highway development will depend upon the merits of the highway project as determined by comprehensive engineering and economic data as well as other pertinent factors.

LOVETT

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<sup>3</sup> Not printed.

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823.24/5-1348

*Memorandum of Conversation, by Mr. George H. Owen of the Division of North and West Coast Affairs*

CONFIDENTIAL

[WASHINGTON,] May 13, 1948.

Participants: Ambassador Alfredo Ferreyros of Peru  
Mr. Sheldon T. Mills, Chief, NWC  
Mr. George H. Owen, NWC  
Mr. Charles W. Kempter, EP

At the request of Mr. Mills, Ambassador Ferreyros called at the Department this morning to discuss settlement of the Peruvian Gov-

ernment's Lend-Lease account on which a balance of over \$2,800,000 is still due. Mr. Mills recalled that the matter had already been discussed with the Ambassador earlier this year, when officials of the Department had informed the Ambassador that, in view of the difficult dollar exchange situation prevailing in Peru, the Department would give consideration to any proposal on the part of the Peruvian Government to settle the account in Peruvian currency, which could be used in connection with our foreign building program.\*

Mr. Kempter said that if the Peruvian Government contemplates making such a proposal, the Department is anxious to receive it as soon as possible. He said that a demand was now being made for a payment of soles against Peru's obligation of \$600,000 under the Surplus Property Credit Agreement,<sup>1</sup> and, since these funds are available for expenditures in Peru in connection with cultural activities under the Fulbright Act, our program for the construction of Embassy buildings, which is already under way, would benefit by the collection of the Lend-Lease account, likewise in soles, for the completion of the program. If no arrangement is made with respect to the settlement of the Lend-Lease Account there would be no funds available for the cultural activities. Mr. Kempter also said that the Lend-Lease account should be converted into soles at the rate of exchange normally available to our Embassy in Peru, which is the free rate.

The Ambassador expressed his gratification at the suggestion that the Lend-Lease account be payable in Peruvian currency. He discussed the question of the rate of exchange at which the obligation would be converted into soles and maintained that the Peruvian government in any such an agreement would have to apply the official rate of 6.50 soles per dollar. Mr. Kempter pointed out that the conversion at the official rate would result in a substantial loss for the U.S. and that the rate of exchange applied in this case should be the same as that prescribed in the existing Surplus Property Agreements which we have with several countries, wherein the rate specified is the most favorable rate lawfully available to the U.S. Government for government activities.†

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\*Memorandum of conversation, NWC, March 3, 1948. [Not printed. Footnote in the source text.]

<sup>1</sup>The United States Government extended to Peru a credit of \$600,000 for the purchase of surplus military property payable in Peruvian currency at the option of the United States, under the Surplus Property Credit Agreement of August 8, 1947, not printed.

† The fact that our demand for a payment in soles under the Surplus Property Credit Agreement, had been met with an offer by the Minister of Finance of Peru to make payment at the official rate of 6.50 soles was not mentioned at this meeting. See Lima telegram 249 of May 5. [Not printed. Footnote in the source text.]

The Ambassador reiterated that there might be some legal difficulty involved in agreeing to any rate other than the official one and referred constantly to the "black market rate" until Mr. Kempter pointed out that there was no question of a black market rate but rather the free rate as opposed to the Central Bank rate applied in merchandise transactions. The Ambassador then remarked that, as a practical matter, this free market was a small scale affair and that it would be impossible for anyone to sell a large amount of dollars, such as \$100,000, within a single day, without causing a marked fluctuation of the "free rate".

There was no agreement on the question of the rate of exchange, and Mr. Mills jokingly pointed out that if the Peruvian government insisted on paying the Lend-Lease account in dollars, we would, of course, be obliged to accept.

Mr. Kempter then referred to the proposed sale of several U.S. Naval vessels which had been transferred to the Peruvian Government under Lend-Lease charter party arrangements during the war, and said that it was the intention of the U.S. Government to offer these ships for sale to the Peruvian Government at a nominal price of \$68,000, and that this amount could also be applied to the Lend-Lease Account.

Mr. Owen inserted a reference to a claim of the Peruvian Government against the U.S. of \$57,000 for damages suffered by the *Compañía Peruana de Vapores* ‡ in connection with the detention of the steamship *Marañón* in New York in October 1941 and pointed out that, while a request had been made for the appropriate legislation by Congress to pay this claim, such action might not be necessary if the claim were found to be one that could properly be offset against the Lend-Lease indebtedness of Peru. The Ambassador did not indicate that there would be any objection to settlement of the *Marañón* claim in this manner, except to point out that there might be some provision under Peruvian law which would prevent the government from being credited with the amount of the claim on behalf of the *Compañía Peruana de Vapores*.<sup>2</sup>

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‡ Note of Peruvian Embassy of November 12, 1947. [Not printed. Footnote in the source text.]

<sup>2</sup> In despatch 876 of October 22, not printed, the Ambassador in Peru (Cooper) reported receipt by the Embassy on October 15 of a communication of October 4, 1948 from the Peruvian Director General of Finance, referring to Peru's obligation of \$530,469.53 for surplus materials and suggesting the offset against this indebtedness of a claim in amount of \$57,886.92 against the United States Government by the *Corporacion Peruana de Vapores*, the settlement of which had been proposed in the sum mentioned by the Department in a note to the Peruvian Embassy in August 1946 (823.24 FLC/10-2248).



823.50/5-2848

*Memorandum of Conversation, by the Assistant Chief of the Division  
of Investment and Economic Development (Cady)*

[WASHINGTON,] May 28, 1948.

Subject: Peru—Urgent Economic Problems

Participants: Senor Don Alfredo Ferreyros, Peruvian Ambassador  
Mr. David Dasso, Technical Adviser to the Santa Corporation of Peru  
Mr. Willard Thorp, Assistant Secretary of State  
Mr. Havlik (OFD)  
Mr. Breithut (FN)  
Mr. Owen (NWC)  
Mr. Cady (ED)

The Peruvian Ambassador opened the conversation by referring to Peru's urgent need to maintain its export markets for cotton and sugar. With respect to cotton, Europe before the war took 80 percent of the exports. While there is increasing demand within Latin America for Peruvian cotton, it is necessary to maintain exports to Europe, which is difficult under present circumstances, because of the inconvertibility of sterling or francs. Peru hopes, therefore, that some arrangements can be made within the framework of ERP to obtain dollars for its sales to Europe.

Mr. Thorp and Mr. Breithut called attention to the difficult aspects of the problem, inasmuch as it is the hope of ECA that trade between Europe and Latin America may go forward on a basis which will keep the need for dollars to an absolute minimum, as it is obvious that ECA will not have enough dollars to completely finance such trade. The Peruvian Ambassador said in this connection that it would be the Peruvian desire to establish a balance of trade with Europe, but this does not appear feasible because Europe is able to supply only a small portion of Peruvian import requirements; that the pressing need is for such materials as agricultural machinery, tinplate and steel products, which can only be obtained from the United States. The Ambassador further indicated that it was not within Peru's capacity to build up sterling or franc balances; that Peru was unfortunately in the position where it could not finance European purchases.

Mr. Thorp called attention to the difficulty of ECA in dealing with procurements because its appropriations had not as yet been authorized by Congress, and such appropriations as may be authorized could possibly carry criteria somewhat different than the enabling act.

Mr. Thorp then mentioned the desirability of achieving a settlement of the Lend-Lease account and surplus property credits. The

Ambassador stated that he was presently in communication with his government on these matters and hopes the situation is working out in such a way that may promise a satisfactory settlement. Mr. Dasso advanced the suggestion that some publicity would be desirable because the Peruvian Government was hampered in its negotiations by strong local sentiment running along the line that Peru had already gone much farther in the settlement of Lend-Lease than other Latin American countries. Dasso urged that if the facts were brought out into the open through a proper public statement, such publicity would help the Peruvian Government to negotiate a satisfactory settlement. Mr. Thorp expressed the opinion that it was desirable for the Department to give consideration to the desirability of finding an appropriate medium of publicity, if such would have the beneficial effects indicated by the suggestion.

The next question brought up by the Ambassador was the need for Peru to receive a larger allocation of tinplate. The quota for the present three months is 1100 tons and the need is for 1750 tons by reason of the fact that the canning of fish (tuna and bonito) is a new and rapidly increasing industry in which much American capital is employed. Until recently Peru has been importing tin cans from the United States, but a local company has been established to make them. The Ambassador pointed out the beneficial effects of the industry upon Peru's deteriorating foreign exchange position; that increased exportation of tinned fish will earn exchange and the domestic production of cans will save it. The Peruvian Embassy has been discussing the need for more tinplate with OIT without much encouragement. Mr. Thorp expressed the opinion that the Department would wish to communicate with OIT just to be sure that that office is fully informed of all the pertinent facts in this matter.

The meeting was then turned over to Mr. Dasso, who said he would speak of the needs of Santa Corporation for financial assistance from some agency in Washington. He spoke at some length of the desire of the Peruvian Government to achieve economic and political stability through economic expansion, which resulted some few years back in the establishment of the Santa Corporation by the Government for the purpose of development of the hydro-electric potential of the Santa Valley, as well as the exploitation of minerals and the development of industries. Power development was given priority and the construction of the Canon del Pato Dam is about 75 percent completed. The material for the construction of two generating units purchased in the United States was largely financed with Santa Corporation resources. The only foreign credit involved was a \$450,000 Eximbank exporters credit arranged in 1945 in collaboration with Westinghouse.

The foreign exchange situation, however, has become such that the Corporation is unable to complete the project without outside financial assistance. It is estimated that \$2.5 to \$3 million will be required for United States purchases.

Upon being questioned by Mr. Havlik as to the market for the initial production of some 50,000 KW's, Mr. Dasso spoke of plans to establish in the Valley a facility for the production of zinc, a by-product of which would be ammonium sulphate; also a plant for the electric-smelting of iron ore. Both plants would be established by private capital and would have a beneficial effect upon Peru's exchange situation. The zinc and iron smelters will require about 80 percent of the initial capacity of the hydro-electric project. The balance can be absorbed by other plants which already exist in the Chimbote area.

The desired financial assistance would be used for purchases in the United States such as material for the construction of transmission lines, control apparatus and fire protection equipment. The project itself has a much greater potential generating capacity, but it is not planned to install additional generating units until a market for the increased production becomes apparent. Canon del Pato will also supply power for pumping water in adjacent valley in which there are rich lands now unusable because of lack of needed irrigation.

Mr. Dasso directly raised the question whether it would be better to approach the International Bank with the proposition, or the Eximbank. Mr. Thorp said he presumed that he would call upon Mr. McCloy,<sup>1</sup> inasmuch as McCloy had visited Peru, but that he would suggest that the details of the proposition should be put before Eximbank because Eximbank already had a credit outstanding in connection with the project. Moreover, it had under consideration an application for the development of Chimbote coal resources with which the Santa Corporation was associated through its provision of transportation and port facilities. In reply to another question, Mr. Thorp assured the Ambassador and Mr. Dasso that the understanding had the friendly interest of the Department and that the ultimate judgment would rest upon the bank's consideration of the economic soundness of the project.

Mr. Dasso made reference to the work of the Institute of Inter-American Affairs in most laudable terms. In speaking of the development of the Port of Chimbote by the Corporation, Mr. Dasso explained that this was only possible because one phase of the Institute's work in Peru was to free Chimbote of malaria. Chimbote, he added, was once the malaria center of Peru, and, due to the Institute's control

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<sup>1</sup> John J. McCloy, President of the International Bank for Reconstruction and Development.



program, new cases had been reduced to not more than two or three a month.

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823.62S/6-948

*The Ambassador in Peru (Cooper) to the Secretary of State*

CONFIDENTIAL

LIMA, June 9, 1948.

No. 454

SIR: I have the honor to refer to the Department's telegram No. 187, May 17, 1948,<sup>1</sup> requesting Embassy's views concerning protest of reservation against Peruvian presidential decree of August 1, 1947 extending sovereignty over extraterritorial waters.<sup>2</sup>

As the Embassy does not have access to the decisions which may have been rendered by the Department defining the policy of our Government formed as a result of the presidential proclamation of September 28, 1945, it is somewhat difficult to make firm recommendations on the Peruvian declaration.

The Peruvian decree asserts full jurisdiction over the sea bed and the sea for a distance of two hundred miles from the Peruvian coast and off-shore islands. The United States declarations reserve the resources of the sea bed to the United States and establish jurisdiction for regulating and controlling fishing activities in waters adjacent to the coasts without limitation of the areas embraced. Moreover, the presidential proclamation does not exclude foreigners from conducting fishing operations in the waters adjacent to the coasts of the United States as it makes provision for negotiations with other governments for the partition of such fishing grounds.

The exclusive jurisdiction asserted by the Peruvian Government over an area of the sea arbitrarily determined appears to contravene the freedom of the high seas. It is based on neither Peru's claim to the continental land mass, to river resources, customary fishing practices (Peruvian fishermen rarely fish beyond twenty-five miles from the coasts), nor any other established right. Peru fails to recognize fishing rights which have been or may be established by foreign nationals and makes no provision for exercising control and regulation in cooperation with foreign governments. Acknowledgement by the Peruvian Government of the right of free navigation within the jurisdiction it claims does not lessen the force of its declaration of sovereignty.

Although the Embassy has had no evidence of American fishing activities in the area embraced within the two hundred mile limit

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<sup>1</sup> Not printed.

<sup>2</sup> For documentation on policies of the United States and certain other American Republics on the continental shelf and high seas fisheries, see pp. 263 ff.

claimed by Peru, except for occasional whaling expeditions, there is increasing interest being displayed by American enterprises in the possible exploitation of high sea fishing off the coast of Peru and it appears desirable to the Embassy that the Government of the United States should inform the Government of Peru that it reserves the right of its nationals to conduct fishing operations in the high seas off the Peruvian coast. If such operations impair the resources of Peru, the Government of the United States should express its willingness to enter into negotiations for their adequate regulation and control.

Respectfully yours,

PRENTICE COOPER

611.2331/10-548

*Memorandum by Mr. George H. Owen of the Division of North and West Coast Affairs to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] October 5, 1948.

Ambassador Ferreyros has said that he wishes to discuss trade problems with Mr. Daniels. Peru has presented certain grievances with respect to her trade relations and trade agreement with the United States, on the following points:\*

1. Peru claims that the present trade agreement<sup>1</sup> works at a disadvantage to Peru. Since Peru's duties are mostly specific the present tariff provides insufficient revenue for increased costs of government resulting from inflation. The Peruvian Ambassador has emphasized there is no question of protection involved. Peru requests revision of the trade agreement to permit her to raise some duties.

2. Peru is anxious to secure some reduction in certain United States tariff duties. The duty on certain types of alpaca, silverware, and tuna fish have been mentioned.

3. Peru also desires a larger share of the United States sugar and cotton market.

a) Peru maintains that we have violated the trade agreement by the Sugar Act of 1948 which in effect reduces Peru's share of the United States sugar market by depriving "full duty countries" of the total of the "Philippine deficit" leaving them with only 5% of it. The Department has informed the Peruvians that since Peru's basic (as distinguished from Philippine deficit) sugar quota remains unchanged since before the Trade Agreement, there has been no violation. Moreover, the Peruvian Ambassador has

\*Memo of Conversation, NWC: ELMcGinnis, September 17, 1948, "Peruvian proposal to renegotiate 1942 Trade Agreement". [Not printed. Footnote in the source text.]

<sup>1</sup>For documentation on the reciprocal trade agreement between the United States and Peru, May 7, 1942 (Department of State Executive Agreement Series 256), see *Foreign Relations*, 1942, vol. vi, p. 674.

been told that negotiations under the Trade Agreements Act could not envisage modification of statutory sugar quotas.

b) Peru would like to sell more long staple cotton to the U.S., by means of an increase in, or an assured share of, U.S. cotton import quotas.

The U.S., on the other hand, has the following complaints regarding the trade agreement.

1. The Peruvian Government charges internal taxes on tobacco products imported from the U.S. which we consider to be an increase in total charges and discriminatory against U.S. products, in violation of the trade agreement.

2. The Peruvian Government has imposed excise taxes on petroleum products and lubricants which apparently discriminate against the imported products in favor of domestic production.

3. The Department is now giving study to the question of whether or not the recently enacted Foreign Exchange Taxes on certain classes of imports are in violation of the trade agreement.

4. In line with current policy, we do not favor renegotiation of trade agreements other than within framework of GATT. In this connection, the U.S. is prepared to negotiate with Peru at Geneva starting next April 9 when the GATT Contracting Parties stage a second round of multilateral negotiations<sup>2</sup> similar to the original negotiations in Geneva in 1947. If Peru wishes us to consider concessions in our tariffs it should advise us specifically what it wishes us to consider by October 31st. It will be useful if the Peruvian Government transmits an informal list of the concessions they are interested in to our Embassy in Lima before that date. This is necessary so that we can make a public announcement of the concessions we shall consider granting in the negotiations and hold public hearings as required under the Trade Agreements legislation.

For your information, it is expected that Peru will shortly receive some more bad news from the Export-Import Bank. The Eximbank is about to defer further consideration of the application for a \$5,000,000 credit for coal development in the Chimbote area on the ground that insufficient information has been presented by the Peruvians, both as to the coal resources and technical problems and as to the legal arrangements which will be made among the groups interested in securing the loan, and also the doubtful extent of a foreign market for Peruvian coal.

Furthermore, the Export-Import Bank has recently requested the views of the Department on the question of Peru's ability to subscribe a suitable government guarantee of Eximbank loans. The Bank raises this question in view of the impossibility of having any such guarantee

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<sup>2</sup>The third session of the contracting parties to the General Agreement on Tariffs and Trade and Tariff Negotiations, was to meet at Annecy, April 8-August 26, 1949.



authorized by law, since the Peruvian Congress is not in session. Under Peru's constitution, an Act of Congress is required to contract a debt. The problem is similar to the one raised by the oil companies who refuse to enter into any agreements under the authority of the Executive Petroleum Decree without sanction of the Congress. It is understood that the International Bank has already informed Peru that the lack of legal authority to provide adequate guarantees would prevent the extension of any credit by that Bank to Peru. We are now looking into the merits of the Eximbank's reasoning. Meanwhile Eximbank will withhold discussing this point with Peruvians.

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823.61351/9-1048

*The Acting Secretary of State to the Peruvian Ambassador  
(Ferreyros)*

WASHINGTON, October 15, 1948.

EXCELLENCY: I have the honor to acknowledge the receipt of your note of September 10, 1948,<sup>1</sup> with further reference to Peru's import quota under the Sugar Act of 1948.

I believe that the Peruvian Government's views on this subject are fully understood and, as stated in the Department's note of March 30, 1948,<sup>1</sup> I sincerely regret that Peru will derive less benefit from the tariff concession on sugar in its Trade Agreement with the United States than was anticipated by Peru when the Agreement was made. However, as previously stated, any change in the Peruvian quota would require Congressional revision of the Sugar Act of 1948, and it is the Department's belief that it is not likely that legislation more favorable to Peru could be obtained in the near future. When Congress next undertakes a general revision of the Sugar Act of 1948, the Executive branch of this Government will give careful and sympathetic consideration to any views that the Peruvian Government may wish to present.

Accept [etc.]

For the Acting Secretary of State:  
GARRISON NORTON

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<sup>1</sup> Not printed.

823.24/12-348

*The Secretary of State to the Embassy in Peru*

CONFIDENTIAL  
No. 297

WASHINGTON, December 3, 1948.

The Secretary of State transmits herewith for the confidential information and records of the Embassy a copy of the Department's note

to the Embassy of Peru in Washington <sup>1</sup> advising the Government of Peru that the statement of the lend-lease account reported in the Department's note of June 25, 1948, to the Peruvian Embassy <sup>2</sup> (refer to instruction No. 166 of June 25, 1948 <sup>1</sup>) may now be considered complete and final.

For the Embassy's further information there are contingent accounts reported by the Treasury Department as outstanding on October 31, 1948, as follows:

*Lend-Lease Pipeline Account*

Estimated deliveries <u>\$37,000</u> on which repayment responsibility is	\$14,947.41
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*Cash Reimbursable Accounts*

Transfer of Personnel (Army)	\$2,144.84
Administration & Incidental	43.50-Cr.
Military Air Transport Service	10,509.43
Special Billing	57.19
Aeronautical Commission	44,489.62
Military	52,902.43
Naval	3,720.39-Cr.

Total due at 100% of procurement cost	106,339.62
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	\$121,287.03
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In addition, lend-lease vessels, leased under Charter Party Agreements and valued at \$1,381,000, have been offered to Peru for \$68,000, payable in United States dollars. Early acceptance and payment will insure prompt transfer of title to these vessels to Peru. Non-acceptance would require their return to the United States at the expense of the Peruvian Government.

It is the intention of the Department to conduct all negotiations for a settlement of these lend-lease accounts in Washington. However, the Embassy may find that various Peruvian officials will wish to consult on these matters, and the Embassy, in its discretion, may discuss the substance of this instruction. It, of course, will be understood that any proposal for any alternative method of payment must originate with the debtor government and be submitted in Washington and that, pending the receipt and study of such a proposal, no prior commitment of any kind may be made or implied to the Peruvian Government.

Information concerning further developments will be sent to the

<sup>1</sup> Not printed.

<sup>2</sup> The balance due on the basis of reportings to May 31, 1948 was \$2,882,910.64, according to the note of June 25, not printed (823.24/6-2548).

Embassy which, on its part, is requested promptly to inform the Department of the result of any informal action it may take for the purpose of cooperation in reaching a final basis for the settlement of these accounts and to submit to the Department any comments it may wish.

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823.6363/12-1048

*The Ambassador in Peru (Tittmann) to the Secretary of State*

No. 1057

LIMA, December 10, 1948.

SIR: I have the honor to transcribe below the content of a letter written to Mr. Charles B. Marshall, a staff member of the House of Representatives, Foreign Affairs Committee. Members of this Committee recently visited Peru among other West Coast countries. The information was prepared at the request of Mr. Marshall. There was no discussion of the petroleum situation, either with Mr. Marshall or any of the Congressmen.

*Copy*

American Embassy, Lima  
December 2, 1948.

Dear Mr. Marshall: In accordance with our conversation of Tuesday evening (November 30th) at the Embassy Residence, I have summarized in the following the status of the main elements of the Peruvian oil exploration and development situation. I have been purposely brief, in line with your thought, but I shall be very happy to elaborate on any point you find of special interest.

Although Peru has been able to produce more oil than needed for domestic consumption, its total production is not a significant proportion of world supply. Oil production in Peru rose from 128 barrels daily in 1896 to 48,000 barrels daily in 1936. From 1936 to 1947, daily average production fell to 35,000 barrels. Practically all oil is from the Northwest Coastal fields, with the only other production coming from the small Agua Caliente field situated East of the Andes (the Peruvian Montaña). This has an output of 400 barrels daily. The mountainous section of Peru, between the coastal areas and the montaña areas, is considered barren of oil.

The potential coastal oil areas are of great interest on account of their accessibility. International Petroleum Company signed a contract in 1946 with the Peruvian Government for exploration and development of a large concession covering the coastal Sechura Desert, but this contract has not been approved by Congress, chiefly due to the failure of that body to hold sessions in 1947 or 1948. The International's Sechura Desert *ad-referendum* contract falls under that part of the 1922 law governing development on Government reserve lands.

The oil possibilities of the Peruvian Montaña area on the East flank of the Andes are considered good. This area, however, is relatively inaccessible. A large quantity of oil would have to be discovered to justify the construction, at the tremendous cost involved, of roads and



pipelines to the coast. Eventual investment before any oil could reach the Pacific Coast has been estimated at 300 million dollars.

The Peruvian Government permits private industry to take up oil concessions in Peru under the 1922 basic petroleum law. However, the effects of the 1922 law were restricted to exploration and development along the Pacific Coast through the passage of the 1937 Montaña petroleum law. The 1937 law attempts to make more liberal the conditions under which oil concessions could be obtained and worked by private capital in the isolated Montaña area. The private operators have found the basic 1922 law and the supplementary 1937 law to contain numerous objectionable features and no major private operator has taken up concession acreage under them.

A new petroleum law was drafted in 1946 by A. A. Curtice of Hoover, Curtice & Ruby, one of the principal international oil consulting firms. This draft law has been under consideration by the Peruvian Government for more than two years, but as yet no action has been taken as the Government was unable to convene a Congressional quorum in 1947 and 1948. Enactment of this draft law would represent a major step toward making possible the needed expansion in oil exploration and development, as objectionable features of earlier legislation would be removed and as American oil operators would be encouraged to take on concessions.

Because (a), the major private oil companies have refused to apply for concession acreage under the 1922 and 1937 laws, and because (b), Congress did not meet in 1947 and 1948 to approve the Sechura Desert contract or to discuss and pass the proposed new petroleum legislation, the Peruvian Government issued Decree No. 11 on April 2, 1948, in an attempt to break the impasse. Decree No. 11 permits private companies to take up State reserve acreage under development contracts with the Empresa Petrolera Fiscal. These contracts are not subject to approval by Congress, as was the case with contracts falling under the 1922 law. The private companies doubt the long-term legality of this decree and have not attempted to make any contracts, as yet.

You no doubt know that the United States Armed Services attach the utmost importance to the building of an increased supply of South American oil for hemisphere defense purposes. We are hopeful here that the impasse described above as delaying development of Peruvian oil reserves will eventually be broken by the convening of a Peruvian Congress and that a worthwhile contribution of crude supplies from this country will result. Yours very truly, George W. Levangie, *Petroleum Attaché*

Approved: Harold H. Tittman.

*End Copy*

Respectfully yours,

For the Ambassador:  
GEORGE W. LEVANGIE,  
*Petroleum Attaché*

## URUGUAY

### UNITED STATES RELATIONS WITH URUGUAY IN GENERAL AND, IN PARTICULAR, WITH REFERENCE TO EXISTING RIVER PLATE TENSIONS

633.353/2-2548

#### *Memorandum of Conversation, by the Secretary of State*

SECRET

[WASHINGTON,] February 25, 1948.

Participants: Dr. José A. Mora—Chargé d'Affaires ad interim,  
Uruguayan Embassy  
Secretary Marshall  
Mr. Tewksbury—RPA

Dr. Mora stated that he had just returned to Washington from Montevideo and that, before leaving, President Batlle Berres had specifically requested that he convey the following message to me:

President Batlle Berres will have a meeting with President Perón of Argentina on February 27. According to the agenda covering the interview, the subjects to be discussed are a trade agreement between Argentina and Uruguay and certain boundary questions. As scheduled the meeting will only cover matters relating to the River Plate area, and President Batlle Berres does not anticipate any discussion of international matters of a broad character. If these questions come up, an effort will be made to limit them to purely regional matters. President Batlle Berres is somewhat disturbed lest the meeting involve a discussion of the so-called third position (apparently a position between capitalistic free enterprise and communist totalitarianism) which was announced sometime ago by President Perón. If this question arises, President Batlle Berres intends to oppose this idea on the ground that Uruguay fully supports the liberal democracies.

The President of Uruguay is preoccupied lest the reaction in the United States to the meeting between himself and the President of Argentina will be that it signifies a closer tie in with Argentina and a trend toward the Argentine position in inter-American relations. He wished it made very clear that the forthcoming meeting would relate exclusively to local matters.

Dr. Mora then outlined the importance of friendly trade relations between Argentina and Uruguay and the desirability of having some specific trade agreement. He also stated that there has been for many

years a question as to the boundary between Argentina and Uruguay with reference to some small islands in the River Plate. He said that the forthcoming meeting might facilitate an understanding in both of these matters.

Dr. Mora said that the President of Uruguay regretted that he was unable to report that Uruguay had ratified the Rio Pact.<sup>1</sup> He pointed out that there was strong political opposition from certain factors in Uruguay but that the President was determined to insist on ratification and felt that he could assure me that he would be successful in his efforts in this connection.

I expressed my pleasure at this expression of the President, and there was a brief discussion of action taken thus far by various countries in this matter.

Dr. Mora said that the President wished to assure me that the position of Uruguay in the Habana Conference<sup>2</sup> on the ITO Charter did not signify general opposition to our trade policy. Opposition to various provisions of the Charter have arisen largely as the result of a desire on the part of Uruguay to protect weak industries and to permit an expansion and development of diversified manufacturing in Uruguay.

The President of Uruguay explained to Dr. Mora that Uruguay's policy toward communism was different from that of some of the neighboring countries. The President feels that, in a country of true democracy such as Uruguay, the activities of political groups should be in the open. He feels that, even communist activities, which in Uruguay are not very extensive, should be permitted to operate in the open rather than be driven underground since it would then become more difficult to watch and control any subversive activities. While there is a certain amount of communist activity, Dr. Mora did not feel that this is a serious menace at the present time in Uruguay.

In closing, Dr. Mora stated that his President was pleased to see the re-establishment of friendly relations between the United States and Argentina.<sup>3</sup> He felt that this was particularly important to Uruguay since strained relations between the United States and Argentina created delicate problems for his country. The President had stated that some fear has been expressed in Uruguay that the improvement of relations between the United States and Argentina might lead to an agreement on the part of the United States whereby

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<sup>1</sup> For the Inter-American treaty of reciprocal assistance, opened for signature at Rio de Janeiro September 2, 1947, see Department of State Treaties and Other International Acts Series No. 1838, or 21 UNTS 77.

<sup>2</sup> For documentation on the United Nations Conference on Trade and Employment at Habana, November 21, 1947–March 24, 1948, see volume I.

<sup>3</sup> For documentation on this subject, see pp. 279 ff.



Argentina might be granted certain freedom of action with respect to its neighbors in the southern part of South America.

I requested Dr. Mora to inform his President that I deeply appreciated his frank statement regarding the various problems and policies of Uruguay, and I assured him that this Government was most anxious to continue its friendly relations with his country.

GEORGE C. MARSHALL

833.85/3-348

*The Ambassador in Uruguay (Briggs) to the Secretary of State*

CONFIDENTIAL

MONTEVIDEO, March 3, 1948.

No. 165

SIR: I have the honor to acknowledge the receipt on March 1 of the Department's instruction no. 22 of February 19, 1948,<sup>1</sup> and to transmit herewith a copy of a self-explanatory memorandum summarizing the conversation which I had with the Uruguayan Foreign Minister this morning.

Respectfully yours,

ELLIS O. BRIGGS

[Enclosure]

*Memorandum of Conversation*

MARCH 3, 1948.

During a call on the Foreign Minister at my initiative at noon today I spoke to Dr. Castellanos along the general lines of instruction no. 22 of February 19, 1948 (received by the Embassy March 1), adding that according to our information the last immediate possibility had apparently been closed by action of our Congress in limiting Maritime Commission sales to U.S. purchasers.<sup>2</sup> I emphasized that this action was contrary to the recommendations of the Executive, and also contrary to the position which the Department of State has taken throughout.

I again referred to the fact that the Maritime Commission functions autonomously and is in no sense subject to the jurisdiction of

<sup>1</sup>In this communication, not printed, the Secretary of State instructed the Ambassador in Uruguay (Briggs) to convey to the appropriate officials of the Uruguayan Government a summary of facts relating to the failure of the Compañía Uruguaya de Comercio y Marítima S.A. to obtain the final allocation of three surplus T-2 tankers from the Maritime Commission (833.85/2-1948).

<sup>2</sup>In A-149, June 18, not printed, the Secretary of State informed the Embassy in Uruguay that effective March 1, 1948, the Merchant Ships Sales Act of 1946 was amended to prohibit further sales by the Maritime Commission of government-owned warbuilt vessels to non-citizens (833.85/5-1248).

the Department of State, notwithstanding which the Department had gone most vigorously to bat in endeavoring to make possible Uruguay's acquisition of the vessels desired. I said it was with sincere regret, both personal as well as official, that I could not now hold out the hope of an early favorable outcome; on the contrary, if the bill in question has been correctly reported, the Maritime Commission has been estopped from sales except to U. S. purchasers.

Finally, I suggest that further information in the premises might be available from Ambassador Blanco, who returned to Montevideo day before yesterday since the Ambassador himself had discussed the matter with high officials of our Government.

Dr. Castellanos thanked me for the foregoing information and for the efforts which he said he recognized I have made on behalf of his government. At the same time he said he was unable to conceal the fact of his government's disappointment that Uruguay, among so many countries that have been permitted to purchase ships, had failed to obtain any.

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800.503110/5-1948

*The Director of the Office of American Republic Affairs (Daniels) to  
the Ambassador in Uruguay (Briggs)*

CONFIDENTIAL

WASHINGTON, May 31, 1948.

DEAR ELLIS: I am in general agreement with the line of thought set forth in your confidential letter of May 19, 1948<sup>1</sup> regarding our policy towards capital investment in the other American republics.

With reference specifically to the second paragraph of your letter, I can state quite categorically that we are not considering dropping or relaxing our efforts to seek more favorable treatment for private enterprise capital. Quite the contrary, one of the major debates at the Bogotá conference<sup>2</sup> was on this specific issue. It will interest you to know that the attitude of the Uruguayan Delegation in this respect was most understanding and helpful. If you have occasion to run into Dr. Ariosto D. Gonzalez of the Uruguayan Delegation (who is a swell guy), he can give you a very interesting description of that debate. One of the most satisfactory features of the economic agreement of

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<sup>1</sup> In this letter, not printed, Ambassador Briggs stressed the prime importance of United States efforts seeking more favorable treatment for private enterprise capital and for the use of private capital in achieving the economic development of Latin America (00.503110/5-1948).

<sup>2</sup> For documentation on the Ninth International Conference of American States, at Bogotá, Colombia, March 30-May 2, 1948, see pp. 1 ff. For provisions of the Economic Agreement of Bogotá on private investments see the report of the American Delegation on the Conference, Department of State publication 3263, p. 207.

Bogotá was the chapter on private investments. The only trouble with that agreement is that too darn many reservations were attached.

So far as loans from the International Bank and from the Eximbank are concerned, there will undoubtedly be a continuation of our existing policies, and very likely on an expanded scale. It is the intention and hope of everybody here, however that all such credits will be conducive either directly or indirectly to a still greater flow of private investment capital. . . . All that I have set forth above, however, is an accurate reflection of current official thinking not only in the State Department, but in other agencies here as well. . . .

Sincerely yours,

PAUL C. DANIELS

711.33/8-548

*The Ambassador in Uruguay (Briggs) to the Secretary of State*

SECRET

MONTEVIDEO, August 5, 1948.

No. 546

Subject: Uruguyan Relations With the United States, Especially With Reference to Existing Rio de la Plata Tensions.

SIR: I have the honor to refer to my despatch no. 539 of August 4, 1948,<sup>1</sup> on the subject of the effect upon Uruguay of various existing tensions involving the countries of the Rio de la Plata zone and Brazil, and to submit the following observations relative to our own relations with Uruguay:

The friendship between Uruguay and the United States coupled with the generous feeling of most Uruguayan citizens toward our country have a firm basis in ideological concepts. Uruguay as a country is as genuinely democratic as the United States, and individual Uruguayans cherish human liberties and decencies and the dignity of the individual precisely as we do. Uruguay is one of the favored countries in the world today: it has an abundance of food, a substantial middle class, no grave internal problem, no racial or minority difficulties, and no national aspirations beyond the desire to live at peace and continue to develop its own compact country. The Government is reasonably efficient and there is a high degree of honesty in government service. In particular Uruguay is not impelled by any driving compulsion or jealousy; her people are contented and they covet nothing that belongs to anyone else.

All in all, Uruguay is a fine country. It is one which merits our friendship and our respect.

<sup>1</sup> Not printed.



The most frequent criticism I have heard of the United States during the past year is that "Uncle Sam is a fair weather friend". This is then often explained along the following lines: whereas we eagerly grasped Uruguayan friendship and sought Uruguayan cooperation during the war (when having a pro-United States sentinel on the north bank of the Rio de la Plata was of great importance to us), once the war was won we started taking Uruguay for granted. We failed to provide merchant ships. We have not made any naval or much military matériel available. We have "forgiven Argentina" and are now doing favors for that country, selling them arms, entertaining military and naval officials, et cetera. We are now "treating all the American republics alike" whether they have liberal democratic governments resting on the freely expressed will of the people, or whether they are administered by dictators. Our recognition after Bogotá of the puppet Somoza Government in Nicaragua<sup>2</sup> is frequently cited as having been discouraging to many of our friends in Uruguay.

It is only fair to say that comments such as the foregoing are not heard every day and of course not voiced by everyone, but they have been heard from enough different kinds of people and in enough different quarters to lead me to believe that we ought to take them into account. The attitude of which they are the expression might in time, or in the event of some situation in regard to which our support had been sought and was not forthcoming, result in serious impairment of Uruguayan-American relations.

What could we or should we do to meet this situation? Very careful consideration over several months has brought me to the conclusion that there are four points we might consider, as follows:

1) From the point of view of Uruguay the most useful thing we could do would be to give Uruguay a clear and positive assurance that in the event of pressure from Argentina, our Government would come to Uruguay's assistance. (Uruguayan officials are generally well aware of the fact that an armed aggression against Uruguay would result in United States armed assistance; as indicated in recent correspondence from our Embassy in Buenos Aires this likewise seems well understood by Argentina, and hence not likely to occur).

What concerns the Uruguayans is not so much the possibility of armed aggression as the much less remote prospect of continuing Argentine politico-economic pressure, penetration, et cetera. Against that pressure, the Uruguayans want our assurance of support—diplomatic and economic. (Uruguay recalls that when Argentina tried to exert a squeeze in wheat and salt in 1946, we promptly promised supplies; Uruguay remembers that when a new wheat squeeze was applied in

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<sup>2</sup> For documentation on this subject, see pp. 99 ff.

1947, we replied to the effect that "Argentina is your normal source of supply").

The Department will recall various efforts made by the Uruguayan Government in the past year through conversations here and in Washington to elicit definite assurances of future United States support. Our replies while couched in friendly terms, fell somewhat short of meeting Uruguayan hopes. They produced therefore not satisfaction, but disappointment.

2) The second thing we could do is to meet, within the limits we consider reasonable—and to meet promptly—Uruguay's military preparedness requests. Specifically we could agree to supply and then promptly furnish a reasonable number of military planes, plus guns and other requested items of equipment that fall within the standardization program. (Please see my telegram no. 238, Aug. 3, 6 p. m.<sup>3</sup>). We could again line up personnel for the military air mission so that if this contract should, as President Batlle Berres stated on August 2 that he anticipated, be approved this month, personnel could be sent to Uruguay without delay. We could accept the self-propelled visit of Admiral Aguiar, Chief of Staff of the Uruguayan Navy, and see to it that he has a pleasant, and within the limitations imposed by our circumstances, as successful a stay in the United States as possible.

3) We could in addition consider the desirability of negotiating a new treaty of friendship, commerce and navigation with Uruguay, as suggested in the Embassy's telegram no. 227 of July 30, 5 p. m.<sup>3</sup> While such an agreement might lack wide intrinsic importance from our point of view, entering into it might well be considered as a useful move by Uruguay at this time, as showing a friendly prevailing atmosphere. Uruguay's relations with Argentina would probably be a factor in Uruguay's willingness to sign such a treaty with us: that is, the more strained Uruguay's relations with Argentina, (or the greater Uruguay's concern over Argentine intentions), the more eager Uruguay might be for a treaty of friendship with the United States.

4) Lastly, there is the possibility that Uruguay may seek a loan either from the Export-Import Bank or the World Bank. While our willingness to meet a request for the former would of course depend on the character of the transaction suggested by Uruguay, our general attitude in the premises ought to be sympathetic and friendly, and perhaps above all we should be prepared to make a prompt examination of any proposals and give an equally prompt reply.

Favorable action in the fields outlined above would go a long way toward convincing this small free country and the good people who

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<sup>3</sup> Not printed.

live in it that the United States is, as I earnestly believe we should be, a genuine friend of Uruguay.

Respectfully yours,

ELLIS O. BRIGGS

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711.33/8-548

*The Acting Secretary of State to the Embassy in Uruguay*

CONFIDENTIAL

WASHINGTON, September 30, 1948.

No. 114

SIR: Reference is made to your despatch no. 546 of August 5, 1948 outlining and discussing "Uruguayan Relations with the United States, Especially with Reference to Existing Rio de la Plata Tensions", which has been read with great interest. It is apparent that you have given this subject careful thought.

The Department's specific observations concerning your recommendations are as follows:

1. As you are aware, Articles 3 and 6 of the Inter-American Treaty of Reciprocal Assistance, signed in Rio de Janeiro on September 2, 1947, make specific provisions regarding attacks and aggressions against any American state. The Department was pleased to learn of Uruguay's ratification of the Treaty (your telegram no. 279 of September 4, 1948<sup>1</sup>) and it now appears that, within a comparatively short period a sufficient number of American republics will have ratified the treaty to bring it into effect.<sup>2</sup>

In view of the specific provisions of Article 3, the opinion of Uruguayan officials, as stated in your despatch, that United States assistance would result from an armed attack on Uruguay, appears logical. However, it should be noted that Article 3 does not specify that assistance rendered prior to inter-American consultation, shall be armed assistance. Subsequent to consultation, assistance would take the form decided upon collectively, but armed force is subject to individual consent.

Article 6, referring to aggression other than armed attack, which affects the inviolability or the integrity of the territory or the sovereignty or political independence of any American state, provides for reference to the "Organ of Consultation", and therefore the degree and manner of assistance is less clearly defined. I believe that this Government has in the past clearly demonstrated its desire to cooperate with the other American republics when there has been real evidence of aggressive economic action by a neighboring country. As

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<sup>1</sup> Not printed.

<sup>2</sup> The treaty entered into force for the United States December 3, 1948.



you point out in your despatch no. 546, the United States promised supplies of wheat and salt to Uruguay in 1946 to relieve the apparent threat on the part of Argentina. Both wheat and salt were shipped to Uruguay at that time, even though Uruguay is not a normal export market of the United States for either of these products. The wheat shortage in 1947 was of a slightly different character and actually, in the opinion of the Department, did not materialize as an aggressive action. Under the IEFC allocation system, all countries were expected to use their normal sources of supply, and the price factor alone was not considered a sufficient reason to warrant a dislocation of the established procedures as the actual diversion of United States supplies allocated to European countries. Had there been an actual threat or serious pressure, action undoubtedly would have been taken to provide the necessary relief. This was done for Peru, Bolivia, and certain other countries when specific difficulties arose.

While it may well be that the present Argentine Government is seeking to extend its economic and political influence in South America, this does not necessarily justify an attempt by the United States to block Argentine efforts to strengthen its political and economic ties with the neighboring countries. There appears to be every reason, however, to anticipate a continuation and strengthening of friendly cooperation between the United States and Uruguay during the years to come. The mutual confidence which has existed between the two countries, as well as the traditional friendship and absence of any major controversies, strengthens this belief.

Although there have been certain instances resulting from decisions by autonomous agencies which are difficult for foreign officials to understand, it would appear that in general our record has been such as to indicate cooperative assistance on the part of the United States. The Department sees no reason why there should be any change in this respect. However, any statement that could be made to Uruguayan officials which would reassure them, would run a serious risk of being misunderstood by other friendly nations if it became public.

The Department welcomes your views on this basic problem which now is under discussion in connection with the drafting of a policy statement on Uruguay. At an appropriate time in the near future your views on the draft statement will be solicited. You may be sure that the considerations you outline in your despatch will be given careful attention. Until final approval of the policy statement, however, the Department considers it advisable to withhold further comment on this matter.

2. As outlined in the Department's Circular Instruction of July 30,

1948,<sup>3</sup> until new legislation may be enacted there is little that the United States can do to supply military equipment to any of the American republics. The United States will give sympathetic consideration to any Uruguayan application for arms export licenses and will be pleased to render every possible assistance to the Uruguayan authorities in any military equipment procurement program that the Uruguayan authorities may wish to initiate with private sources of supply in the United States.

The Department now is endeavoring to assist Uruguay to procure surplus planes from the Department of the Air Force, as the Embassy is aware. Furthermore, the Department of State and the Department of Navy will endeavor to assist the Uruguayan Chief of Naval Staff, Admiral Aguiar, in every possible way for the success of his visit to the United States, should he finally decide to make the visit.

The Department is sympathetic to your suggestion that the Department of the Air Force be prepared to expedite the despatch of a Military Air Mission to Uruguay as soon as the mission contract shall be approved by the Uruguayan Congress. You may assure the Uruguayan authorities that every effort will be made in this connection. However, recent experiences with Uruguayan delays concerning this mission and with regard to a proposed Civil Aeronautics Authority Mission, create a natural reluctance to take any positive steps prior to Uruguayan approval of the Military Air Mission contract.

3. The Department is in complete agreement with you concerning the desirability of negotiating a new treaty of friendship, commerce, and navigation with Uruguay. Indeed, as the Embassy has been informed, the Department is anxious to negotiate such a treaty. The Department further agrees that its text should be as brief and concise as possible. No doubt you have found the short Belgian draft, as contrasted to the longer Italian draft, useful in your discussions with the Uruguayans. (Reference the Department's telegram no. 169 of August 30, 1948<sup>4</sup>). Should your exploratory conversations in this regard be satisfactory, you may be sure that you will receive every assistance from the Department in order to achieve an early completion of this treaty.

4. As you suggest, United States willingness to meet an Uruguayan request for a loan from the Export-Import Bank would of course depend on the character of the transaction proposed by Uruguay. Also as you suggest, the Department's general attitude in the premises ought to be and is sympathetic and friendly. The Department will endeavor

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<sup>3</sup> For text of this instruction, see p. 218.

<sup>4</sup> Not printed.

to and is confident of obtaining prompt consideration of any Uruguayan proposal as well as a prompt reply.<sup>5</sup>

The Department appreciates your observations and recommendations and trusts that the foregoing will meet your agreement. The Department will of course be pleased to consider any further observations which you may wish to make in this connection.

Very truly yours,

ROBERT A. LOVETT

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<sup>5</sup> The Secretary of State informed the Embassy in Uruguay in telegram 222 of November 24, 1948, 1 p. m., not printed, that the Export-Import Bank Board of Directors had approved on November 17 a credit of \$141,600.00 to assist the Industria Papelera Uruguaya, S.A. to purchase United States paper-making machinery and equipment (811.516 Export-Import Bank/11-2448).

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833.24/12-748

*Memorandum by Mr. Raymond K. Oakley of the Division of River Plate Affairs to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] December 7, 1948.

In accordance with your instructions there are outlined below the efforts of the Uruguayan Government in recent years to purchase arms in the United States.

During the war Uruguay obtained a small amount of arms and equipment under lend lease. In June 1946 she submitted a request for a long list of military equipment. In February 1948 the list was reduced and the items requested were for equipment:

- 1 regiment of infantry (less 2 battalions) ;
- 1 cavalry reconnaissance squadron, mechanized (less M3-A1 tank companies) ;
- 1 artillery battalion 105mm Howitzers (less 2 batteries) ;
- 1 artillery battalion 105mm Howitzers (less 2 guns) ;
- 1 anti-aircraft artillery automatic weapon battalion, semi-mobile (less 4 40mm guns) ;

In June 1948, after an extensive inventory of available equipment, we replied that we did not have any such amount of equipment available. Several other countries also had asked for considerable quantities of such matériel and were likewise refused. A law effective June 30 effectively stopped the sale of surplus equipment on hand within the United States unless it had already been declared surplus. Very little matériel existed at that time which had already been declared surplus.

Meanwhile in May 1948 we received an informal request for purchase of 39 military aircraft. The sale of these was finally approved by the State Department on November 9. Some were planes declared



surplus before June 30. It is understood that the Army would fly the remainder to Panama and there declare them surplus, since in that way they would not be subject to the prohibitions of the June 30 law.

In June the ranking officer of the Uruguayan Navy wanted to visit the United States to purchase naval equipment. He finally was convinced that there was no legislative authorization to sell such equipment and that his trip therefore would be unproductive. He decided not to come.

On June 8 the Assistant Military Attaché of the Uruguayan Embassy solicited the assistance of the Army Department in obtaining from private sources a small arms and ammunitions plant and 25-50,000 semi-automatic rifles. This officer made further inquiry in private sources but as far as it is known to the Department, nothing definite was accomplished.

On October 29 Ambassador Briggs reported a conversation with Ambassador-Designate Domínguez Cámpora. The latter stated that upon his arrival in the United States he would press for special consideration for the sale to Uruguay of the equipment listed above plus equipment for one US-type infantry division and 30,000 rifles. Ambassador Domínguez previously had "indicated" to Ambassador Briggs that "there exists an obligation on our part to supply this equipment since the matériel obtained under lend lease is incomplete and of little use without more".

On December 3 the Department approved the export to Uruguay of 16 Avenger aircraft purchased by the Uruguayan Navy from private sources.

There have been several other small requests from Uruguay to purchase arms or equipment from the United States Government or from private sources. These have been resolved in a manner on the whole satisfactory to the Uruguayans it is believed.

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833.24/12-748

*Memorandum by Mr. R. Kenneth Oakley, of the Division of River Plate Affairs, to the Director of the Office of American Republic Affairs (Daniels)*

CONFIDENTIAL

[WASHINGTON,] December 8, 1948.

Supplementing RPA's memorandum of December 7, 1948 regarding Uruguayan arms purchase requests.

In addition to the arms and equipment obtained under lend lease Uruguay obtained materiel under the so-called Interim Program. This amounted to about 10% of the total military requirements of Uruguay,

as estimated as a result of the staff conversations of 1945. All the other countries received an approximately equivalent amount.

Nothing was done about Uruguay's request of June 1946 because at that time it was the established policy not to grant such requests which were in addition to the Interim Program.

The Uruguayan Embassy has been informed that the National Defense Department is prepared to assist Latin American governments in purchasing arms and equipment from private sources (at necessarily high prices) but it has not yet requested such facilities. It is thought that the matter has been left pending until the new Ambassador can discuss it with the Department.

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733.35/12-848

*Memorandum of Conversation, by Mr. R. Kenneth Oakley of the  
Division of River Plate Affairs*

SECRET

[WASHINGTON,] December 8, 1948.

Participants: Dr. Alberto Domínguez Cápura, Uruguayan Ambassador-Designate

Mr. Paul C. Daniels, Director ARA

Mr. Howard H. Tewksbury, Chief RPA

Mr. R. Kenneth Oakley, Uruguayan Desk Officer, RPA

The Uruguayan Ambassador dwelt at length on what his Government considers an Argentine Plan for hegemony in southern South America, "aimed at nothing less (in the case of Uruguay) than the political independence of Uruguay". There follows the gist of his remarks.

The recent wave of unrest and revolt throughout Latin America is inspired at least morally by the present Argentine Government. Whether Argentina has had a more direct influence is not known but certainly Argentine activities in Uruguay indicate a systematic attempt to dominate that country. . . .

Uruguay is very disturbed about these threats to its sovereignty and is certain that the United States must be similarly concerned. As a loyal and long-time friend of the United States, Uruguay has the obligation to bring these matters to the attention of the United States Government. This has been done through the United States Ambassador in Montevideo, in most part by Ambassador Domínguez himself.

The Uruguayan Government has given much thought to what it should do to counteract such activities and to protect itself. On instructions from his government, Dr. Regules discussed the matter at

the Bogotá Conference with Argentine Foreign Minister Bramuglia who promised assurances in the form of a treaty. Later, however, Argentine Ambassador La Rosa stated that a treaty was not necessary and furthermore that Argentina needed to maintain its freedom of action for the next four or five years in order to carry out its plans in the River Plate area. President Batlle discussed these same preoccupations with President Perón in a subsequent meeting but without obtaining satisfaction. . . .

Still more recently Uruguay has been faced with a meat shortage and the refusal of Argentina, for a time, to permit exports of live cattle. The Ambassador did not dwell on this point but said that it had created a very serious situation.

I stated that Ambassador Briggs had faithfully reported the foregoing information to the Department. I added that the United States indeed is disturbed by the lack of tranquility resulting in part from Argentine activities. At this point I made bare mention of the pending arrival, the following day, of Bramuglia in Washington.

Ambassador Domínguez stated that Uruguay is very much disturbed by Bramuglia's visit. At this point he asked point-blank what the United States would do in case of Argentine aggression against Uruguay. I stated that the United States immediately would support Uruguay in conformity with the recently effective Rio Treaty of 1947 and also with the Bogotá agreements of 1948.

Ambassador Domínguez said that he did not believe Argentina would commit an open act of aggression against Uruguay but would go far to promote an indigenous Uruguayan movement to overthrow the present government and establish one more friendly to Argentina or perhaps even in favor of the political union of the two countries. Uruguay fears that Argentina, particularly at Bogotá, had asked for and received from the United States a *quid pro quo*: Argentine hegemony in at least the River Plate area, for Argentine support of United States hemisphere aims. If such an understanding with the United States were not open it might at least be tacit.

I laughed at this remark and the Ambassador stated that he could not laugh because the matter was too serious and important to Uruguay. However he was glad to see such laughter because it supported him in his belief that the United States had not given Argentina any such understanding. Uruguay has faced this problem with a complete sense of loyalty to the United States and the Ambassador would like to have my observations thereon.

I stated that I was very pleased to have a person of the standing of Ambassador Domínguez representing Uruguay in the United States. I invited the Ambassador not only officially to speak for the Uru-



guayan Government on such matters but personally to give me the benefit of his friendly advice and counsel in this regard. For example, I am considering the possibility that, as the United States representative on the Council of the Organization of American States, I might soon raise the question in the Council, of the procedure to be followed in the implementation of the Rio Treaty. I made it clear that this possibility had not even been widely discussed in the Department and that while I would like the Ambassador's comment thereon, this desire was purely a personal approach. The Ambassador stated that he would consider the matter and reply to me later.

The Ambassador then dwelt further upon the recent military rebellions and military *de facto* governments in Latin America. He stated that such revolts amount to the military setting itself up as a judge of the efficiency and efficacy of duly established governments, an inadmissible position. This sort of development is of great and direct assistance to Communism. . . .

The Ambassador launched upon an outline of Uruguay's possible problems as regards Communism. He particularly mentioned the large number of Communists in Brazil and the inability of the Brazilian Government thus far to discover and sequester considerable quantities of arms held by such Communists. He stated that the possibility of Communist attempts against law and order in Uruguay had been mentioned to him by Ambassador Briggs. As a result of this conversation Uruguay took stock of the situation. He had arranged a special liaison on this subject between Ambassador Briggs and the Uruguayan President through the Minister of the Interior. However, Uruguay discovered that it is almost completely lacking in arms (12,000 rifles available) with which to deal with any Communist uprising. Furthermore the armed forces are ill-equipped to deal with this or with any situation provoked by Argentina. Uruguayan money had been spent on schools, sanitation, etc. and the country now finds itself very poorly equipped to face any problem requiring armed force. He stated that Uruguay urgently needs 30,000 rifles for its *Guardia Civil* and also needs other equipment for its armed forces.

I stated that, in anticipation of this approach by the Ambassador, I had studied the matter of Uruguay's desire to purchase arms in the United States. I mentioned that certain of the Uruguayan requests had been filled but that there was some doubt in the Department as to exactly what other items are desired. I suggested that a summary list be compiled of existing requests and promised that the Department would be glad to assist in any possible way. I pointed out that the Department of State is concerned in this matter only from the standpoint of granting export licenses, and that the present almost com-

plete lack of surpluses held by our armed forces makes it necessary that Uruguay obtain any arms in the United States through regular commercial channels, probably at a relatively high cost. I added that the Department of State is completely well disposed toward the granting of export licenses to Uruguay.

As the Ambassador was leaving I repeated that the United States is aware of Uruguay's preoccupation and of the present intranquility in the other American republics. I stated that the United States above all desires better understanding and greater stability in Latin America. I added that I intended tactfully to speak to Dr. Bramuglia about this matter the following day.

The Ambassador stated that Uruguay desires nothing more than complete understanding and friendship with Argentina. It is fully appreciative of United States support and for that reason has resolved to be most cautious not to compromise the United States through some precipitate action.

PAUL C. DANIELS

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810.50 Rio de Janeiro/12-1448

*Memorandum of Conversation, by the Chief of the Division of River Plate Affairs (Tewksbury)*

CONFIDENTIAL

[WASHINGTON,] December 14, 1948.

Participants: Dr. Domínguez Cámpora—Uruguayan Ambassador  
Mr. Daniels—Director, ARA  
Mr. Tewksbury—RPA

Dr. Domínguez Cámpora devoted considerable time to a discussion of the implementation of the Rio Treaty and to the appropriate procedure to be followed in the handling of the present case of Costa Rica by the Organization of American States.<sup>1</sup>

Dr. Domínguez Cámpora also made reference to reports that the United States favored the formation of an Austral bloc and possibly even supported Argentina in this. I assured Dr. Domínguez Cámpora that this Government regarded each of the other twenty American republics as completely independent from a juridical and political point of view and that this Government fully respected this independence. I pointed out that this Government has at no time given any indication of supporting a nation which was seeking to extend its influence over its neighbors. Dr. Domínguez Cámpora said that he felt very much reassured at my statement and would pass this on to President Batlle Berres.

The Uruguayan Ambassador then reverted to his discussion of the

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<sup>1</sup> For documentation on this subject, see pp. 488 ff.

Rio Treaty and specifically inquired what the position of the United States would be in the event of an armed aggression by Argentina. I replied that, in the case of a clear-cut military aggression, the United States would be guided by its obligations as set forth in the Rio Treaty and would lend assistance. Dr. Domínguez Cámpora then mentioned the fact that, in the case of armed aggression, there were two types of assistance provided under the Treaty (Art. 3): (1) immediate assistance and (2) assistance after consultation; and he asked if I would indicate which type of assistance the United States could be counted on to lend. I remarked that specific conditions might govern this situation and that I would want to give careful thought to the subject before giving him a definite answer.

PAUL C. DANIELS

833.24/2-249

*The Secretary of State to the Uruguayan Ambassador  
(Domínguez Cámpora)*

CONFIDENTIAL

The Secretary of State presents his compliments to His Excellency the Ambassador of Uruguay and has the honor to refer to the Department's note of July 15, 1948<sup>1</sup> concerning the status of the lend-lease account of the Government of Uruguay, and reporting the overall status of the various contingent accounts as of June 30, 1948.

The following statement summarizing the status of the Uruguayan account as of December 31, 1948 is based upon records maintained both by the Treasury Department and the Department of State:

Total payments received.....	\$7, 800, 000. 00
Net charges under the Lend-Lease Agreement .....	\$2, 514, 833. 34
Funds transferred to "Cash" lend-lease .....	175, 356. 36
Funds transferred to the Foreign Liquidation Commissioner .....	\$1, 333, 191. 48
Less refunds.....	6, 548. 12
	1, 326, 643. 36
Funds transferred for "Miscellaneous Disbursement" .....	241, 988. 33
Total reported charges.....	\$4, 258, 821. 39
Balance due to the Government of Uruguay as of December 31, 1948.....	\$3, 541, 178. 61

<sup>1</sup> Not printed.



While, for the present, the above figures may not be considered to be final it is the hope of this Department that all final reportings will be received soon thus permitting the closing out of these accounts to the mutual satisfaction of both Governments.

It is requested that the above statement be treated on a most confidential basis.

WASHINGTON, February 2, 1949.

## VENEZUELA

### INTEREST OF THE UNITED STATES IN VENEZUELAN OIL PRODUCTION AND OTHER EXTRACTIVE INDUSTRIES; CONCERN OF THE UNITED STATES OVER POSSIBLE COMMUNIST SABOTAGE IN THE OIL FIELDS

831.6363/3-1848

*The Chargé in Venezuela (Carrigan) to the Secretary of State*

No. 239

CARACAS, March 18, 1948.

#### [Extracts]

Subject: Venezuelan Policy of Refusing New Oil Concessions and its Relation to Recent Publicity and to the Bogotá Conference <sup>1</sup>

SIR: I have the honor to refer to previous telegrams on this subject and to report that there have recently appeared in Caracas newspapers several United Press and Associated Press dispatches which have attributed to official and unofficial sources in the United States certain statements concerning the world need for oil and the possibility of reaching a multilateral agreement at Bogotá for increased production from Western hemisphere reserves.

#### I. DESCRIPTION OF RECENT PUBLICITY

One of these dispatches attributed to Congressman Short <sup>2</sup> a statement that the oil policy of Venezuela is "strictly and basically nationalistic".

On March 2, 1948, the semi-official *El País* published an interview with the Minister of Development, Juan Pablo Perez Alfonso, in which the Minister made specific reference to Congressman Short's statement. A summary of this interview, the substance of which was transmitted in the Embassy's telegram no. 169 of March 4, 1948, <sup>3</sup> is enclosed. <sup>3</sup> The Minister defends what he calls the "wise nationalism" of the Venezuelan Government which he compares to alleged nationalistic policies of the United States. He is quoted as saying in substance that Venezuela will not consider the granting of any new oil concessions because of the difficulty of using additional income to purchase needed farm and industrial machinery and because of the need for

<sup>1</sup> For documentation on the Ninth International Conference of American States, Bogotá, Colombia, March 30-May 2, 1948, see pp. 1 ff.

<sup>2</sup> Dewey Short, of Missouri.

<sup>3</sup> Not printed.

conservation. The Minister also made vague reference to Venezuela's possible collaboration with other American States in the exploration and study of Venezuelan natural resources; he may have had in mind a distinction between operations of a purely exploratory character and actual production which would deplete reserves. Summary of an *El País* editorial supporting the Minister is enclosed.<sup>4</sup>

## II. BACKGROUND OF THE POLICY OF NO NEW CONCESSIONS

As the Department knows, the only important restriction imposed by Venezuelan law and practice at this time on increased exploration, production and exportation of oil is the current Acción Democrática policy of refusing to grant additional concessions similar to those under which the oil companies now operate. This is not a new policy; since the Revolution of October 1945 concessions previously granted by the régimes of President Medina and its predecessors have been recognized, but no new ones have been given.

## III. THE EFFECT OF THIS POLICY ON PRODUCTION

The three so-called "large" companies (Creole, Mene Grande and Shell) currently produce about 94 percent of the oil. They are now going ahead with exploratory programs in respect of unproven acreage and with programs to increase production in proven areas. An informed official of one of these companies has informed the Embassy that the "large" companies will be fully occupied by this task for the next three to five years; and he estimates that within five years the total national production will have increased about 20 percent. This estimate is a conservative one since it assumes that no large fields will be found within the present concession areas and that no new areas will be made available for development.

On the same assumption that no new production will be found and no new areas opened to exploitation, the same official estimates that in five years Venezuelan oil production will level off and begin to decline. Meanwhile, the principal impediments to higher production and more extensive development of the present concession areas continue to be the shortage of Venezuelan labor and the difficulty of obtaining steel pipe and other materials which are under United States export control—not the policies or practices of the Venezuelan Government.

In sum, the policies and practices of the Venezuelan government cannot yet be said to have seriously impeded exploratory or develop-

<sup>4</sup>Not printed.



ment operations. If, for the next period of three to five years, no new areas are made available, the energies of the "large" companies will nevertheless have been more or less fully occupied in developing the acreage which they already have. The same thing will be true of some of the "small" producers.

For the immediate present, then, the problem is not so much one of expanding exploration and production operations but rather one of opening the way for a few "small" operating companies and new arrivals to begin or to expand activities—to add their capital and energies to those of the better-established companies, whose task for the next few years is already laid out so that exploratory operations in unproven areas can be speeded up.

#### V. RECOMMENDATIONS

It is entirely possible that the Venezuelan Government, either now or at some time in the near future, will consent to open up additional acreage to development; it may seek agreement of the companies to arrangements which will be more favorable to the government than are the terms of the 1943 law. Since the private companies must individually decide under what conditions they will risk their capital, this phase of the question should continue to be the subject of direct negotiations between the companies and the government. The Embassy should, at the same time, attempt to create an atmosphere conducive to expanded operations by the companies on a basis fair to them and to the Venezuelan Government alike.

It is also possible that the Venezuelan Government may wish, as a condition precedent to agreements for additional development, to obtain one or more concessions from the United States such as, for example, preferred treatment in respect of the receipt of United States machinery. The possible phase of the problem should, of course, be the subject of government-to-government negotiations which should be related to the question of the terms and conditions under which new acreage will be made available to the companies and perhaps related also to various other industry problems.

These suggestions are tentative only since the Embassy, in the absence of instructions in respect of the Department's decision concerning multilateral discussion of the problem at Bogotá, has not considered it prudent to discuss the problem with the Venezuelan authorities.

In respect of the possibility of multilateral discussions at Bogotá, the Embassy's views continue to be those expressed in its airgram A-56 of January 15, 1948.<sup>6</sup>

<sup>6</sup> Not printed.

VI. COMMENTS CONCERNING PUBLICITY

Venezuela is now the world's largest exporter of oil with a current production in excess of 1,300,000 barrels a day. It was a valuable source of supply to us in the last war and a cooperative ally. It is the only nation in Latin America which permits large-scale production and exportation of oil by private companies. In the face of determined Communist opposition and at some political risk, the Venezuelan Government recently made possible the successful conclusion of an industry labor contract which is substantially fair to the industry and to labor alike, and which preserves intact the management prerogatives of the companies. It has recently concluded a series of agreements for the sale to United States and United Kingdom companies of a large part of the government's royalty oil; while these agreements permit the government to make sales to third parties, they will doubtless make available to the United States substantial quantities of oil.

In sum, the Venezuelan Government feels that its oil policy, considered either on its merits or on a basis of comparison with the policies of other Latin American countries, is entitled to something other than the published criticism of United States sources. As the Department knows, one Venezuelan official attributed to the Department the press statements referred to in the first part of this despatch. For these reasons—and because a continuation of uncontrolled discussion in the press may cause misunderstanding and make a settlement of the problem more difficult—the Embassy has telegraphed the Department that further public discussion of Venezuelan policy is undesirable.

Respectfully yours,

For the Chargé d' Affaires  
THOMAS C. MANN  
*Second Secretary of Embassy*

831.6363/4-1548

*The Chargé in Venezuela (Carrigan) to the Secretary of State*

SECRET  
No. 293

CARACAS, April 15, 1948.

The Chargé d'Affaires ad interim has the honor to refer to the Department's instruction no. 9 of January 21, 1948<sup>1</sup> requesting the Embassy to comment on the conclusions set forth in an enclosed report concerning the ability of Venezuelan Communists to sabotage oil installations.

The enclosed memorandum,<sup>1</sup> which contains the Embassy's comments on this question, proposes that a joint Venezuelan Government—

<sup>1</sup> Not printed.

oil industry survey be made for the purpose of formulating concrete recommendations concerning the measures which should be put into effect in case of a future emergency. While there is no certainty that sabotage will be attempted, the world situation, recent developments in Colombia and persistent but unconfirmed reports of Communist intentions to damage oil installations make it prudent to minimize the danger as much as possible. If the Department concurs, an attempt will be made to obtain the consent of the Venezuelan Government to the project. Officials of the Creole and Mene Grande oil companies have been informally and confidentially consulted and have expressed their agreement in principle with the conclusions expressed in the enclosed memorandum; if and when the consent of the Venezuelan Government is obtained, the other American and British companies should be brought into the survey.

There is also enclosed a memorandum <sup>2</sup> which contains additional comments on the enclosure to the Department's instruction under reference.

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<sup>2</sup> Not printed.

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831.6363/4-2448

*The Secretary of Defense (Forrestal) to the Secretary of State*

[Extracts]

TOP SECRET

WASHINGTON, April 24, 1948.

DEAR MR. SECRETARY: The National Military Establishment heartily endorses the measures being taken by the Department of State to assist the Government of Venezuela and the operating oil companies in providing for the security of the oil fields of that country against anticipated sabotage efforts.

It is recommended, therefore, that during the course of its conversations with the Government of Venezuela concerning internal measures of security, the Department of State explore the possibility of securing a further understanding with Venezuela,<sup>1</sup> either on a bilateral basis or on a multilateral basis possibly in accord with the principles of the Inter-American Treaty of Reciprocal Assistance.<sup>2</sup> . . .

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<sup>1</sup> Under Secretary Lovett informed Secretary Forrestal in his letter of June 7, not printed, that he had received observations from Ambassador Donnelly regarding the suggestion made in his letter of April 24 as follows:

"Ambassador Donnelly expresses the opinion that it is virtually certain the Venezuelan Government would, at this time, reject any such suggestion since the Venezuelan leaders would consider such an arrangement an invasion of their sovereignty. He therefore recommends against making an approach at this time. The Department considers his reasoning sound and believes his views should be accepted, subject to further developments." (831.6363/5-2148)

<sup>2</sup> Department of State Treaties and other International Acts Series 1838, or 21 UNTS 77.



The Military Establishment is prepared to furnish any assistance that the Department of State may request for the prosecution of the foregoing negotiations.

Sincerely yours,

FORRESTAL

S31.6363/4-3048 : Telegram

*The Chargé in Venezuela (Carrigan) to the Secretary of State*

TOP SECRET

US URGENT

CARACAS, April 30, 1948—6 p. m.

334. Creole, Meneg and Shell are presently coordinating their views in close and continuous collaboration with Embassy and four attachés. Our joint task is to recommend detailed plans for implementing general program outlined Embtel 330 April 29<sup>1</sup> which will afford maximum protection possible against sabotage and at same time minimize risk of government opposition or political repercussions which might defeat our whole purpose and prejudice position of the companies. . . .

<sup>1</sup>Not printed.

CARRIGAN

631.119/7-2148

*Memorandum of Conversation Between President Truman and the President of Venezuela (Gallegos)*<sup>1</sup>

Subject: Venezuela's Requirements of Products in Short Supply

Participants: President Truman

President Gallegos

Dr. Pérez Alfonzo, Minister of Fomento

Sr. Gonzalo Carnevali, Venezuelan Ambassador

Dr. Andrés Eloy Blanco, Foreign Minister

Dr. Raúl Leoni, Minister of Labor

Dr. Gonzalo Barrios, Executive Secretary to President Gallegos

Place: In President Truman's Special Car while en route from Washington, D.C. to Bolivar, Missouri.

The meeting was arranged at the request of Dr. Gonzalo Barrios, Executive Secretary to President Gallegos.

President Gallegos told President Truman that he appreciated the

<sup>1</sup> Enclosure in despatch 577, July 21, 1948 from Caracas, not printed: Ambassador Donnelly, who prepared the memorandum, stated that the conversation took place on July 4. President Gallegos and his Committee were official guests of President Truman during a two weeks' visit to the United States (S31.001 Gallegos, Romulo/7-2048); for an account of this visit, see Pan American Union *Bulletin*. September 1948, vol. 82, pp. 481-494.

opportunity to inform the President of some of Venezuela's problems as they relate to the procurement of supplies from the United States. He said that his Government has no intention of restricting the efficient production and exportation of petroleum, but that he wished the President to know that he is responsible to the people to see to it that revenue received from the industry is invested in productive enterprises, for diversification of industry and agriculture and for other projects intended to improve the lot of his people. He added that to carry out the program Venezuela must import necessary quantities of steel, machinery and other equipment from the United States and that he would welcome the President's assistance in this connection. President Truman expressed interest in the problem and promised to cooperate with him.

President Gallegos then asked Dr. Pérez Alfonzo, the Minister of Fomento, to explain the situation. The Minister stressed the need for larger quantities of steel and referred, in this connection, to the development of the high-grade iron ore deposits in Venezuela by the United States Steel Corporation and the Bethlehem Steel Company. He said it was reasonable that Venezuela should receive an increase in the steel quotas in exchange for the exportation of from four million to six million tons of high-grade iron ore to the United States. He remarked that Bethlehem would initiate shipments next year and that the United States Steel would follow within a short time thereafter. He said he had been in touch with the companies and indicated that they were prepared to take care of Venezuela's steel requirements but that Venezuela would have to arrange for the export licenses.

President Truman manifested interest in the plans and added that, in response to his request, Congress had included in the new draft law a provision giving the President authority to allocate products in short supply. He said that Government lawyers were studying the provision and that if it covered Venezuela's case he would be pleased to implement it so as to assist Venezuela.

Dr. Pérez Alfonzo said that while the steel requirements of the petroleum industry were larger than the civilian needs of his country, they were equally important. He added that he had met with the Secretary of Commerce and that he had promised to send him a statement showing Venezuela's requirements of steel, oils and fats and other products in short supply. He also stated that Dr. Leoni, the Minister of Labor, had conferred with the Acting Secretary of Labor but did not disclose the subjects they discussed.

Dr. Pérez Alfonzo referred in general terms to the 50/50 net profit arrangement with the petroleum companies and added that the relations between the Government and the companies were most satisfac-

tory. President Truman said that he was pleased to know that and that the companies as well as the Mexican Government had learned a lesson from the experience in Mexico and that both now realize they made a mistake. Pérez Alfonzo pointed out that he shared this view and that Venezuela has also benefitted from the experience and that his country preferred to work with the private companies in developing the petroleum resources.

No definite commitments were entered into.

S31.6363/7-2248

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

CONFIDENTIAL

CARACAS, July 22, 1948.

No. 580

SIR: I have the honor to report on two conversations with Doctor Pérez Alfonzo, the Venezuelan Minister of Fomento, during the recent official visit to the United States. He was a member of President Gallegos' official committee.

Dr. Pérez Alfonzo said that the 50/50 net profit arrangement (i.e., Government's take in taxes should always equal the net profits of companies) will apply to all extractive industries in Venezuela. He specified oil, iron ore and gold. He indicated that the Bethlehem Steel Company and the United States Steel Corporation had accepted the principle as it applies to their new iron ore operations in Venezuela. He recognized the request of new and small operators for an opportunity to amortize their investments before applying the principle and indicated he would do something about it. I concluded from this remark that the iron ore producing companies had made this a condition to acceptance of the profit plan.

Dr. Pérez Alfonzo said that he does not envisage changes in the existing petroleum law but added that it might be necessary to modify the tax law so as to clarify the 50/50 plan.

He confirmed the agreement with the Texas Railway Commission and said that a representative would arrive in Caracas shortly to initiate studies for the efficient production of petroleum. He added that the Venezuelan Government will send about twelve engineers to study under the Commission.

Dr. Pérez Alfonzo said he was favorably impressed with the request of the Phillips Petroleum Company for additional concessions and indicated he would do something about it.

He stated that he had told officials of the Creole Company that they should consider the advisability of restricting their annual dividends and instead increase their reserves. He remarked that the Company's



dividend in 1947 approximated 20 per cent and that it had created an unfavorable impression in Venezuela. He said that Creole's net profits in 1947 exceeded the net profits of the United States Steel Corporation.

Dr. Pérez Alfonzo said he would continue to permit a natural increase in the production of petroleum but made it very clear that his Government is concerned about the waste of gas and hopes to harness some of it for power and industrial uses. In this connection, Mr. E. Holley Poe of Texas and a number of American experts are presently visiting the oil fields at the invitation of the Venezuelan Government and it is expected that they will make specific recommendations to the Government for the practical use of the waste gas. Mr. Poe is regarded as one of the foremost authorities on gas in the United States, and the Department will recall that he negotiated the purchase of the famous 24 inch gas pipeline from Texas to the East Coast.

Dr. Pérez Alfonzo stated on several occasions that he was most favorably impressed with the success of free enterprise in the United States and indicated that Venezuela's future should be based upon this principle as well as the law of supply and demand.

Dr. Pérez Alfonzo said that several American manufacturers had inquired of him as to the possibilities for new industries in Venezuela and that President Gallegos and he had assured them that they would be welcome and would receive adequate protection.

Respectfully yours,

WALTER J. DONNELLY

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831.24/7-2748

*The Secretary of State to the Embassy in Venezuela*

CONFIDENTIAL  
No. 159

WASHINGTON, August 27, 1948.

The Secretary of State acknowledges the receipt of the Embassy's despatch No. 588 dated July 27, 1948, relating to lend-lease accounts<sup>1</sup> and other obligations of the Government of Venezuela and suggesting certain advantages which would accrue to the Embassy if settlement were to be effected in bolivars.

As the Embassy indubitably is aware, those American republics which were beneficiaries of lend-lease aid stand committed, through the terms of their respective Lend-Lease Agreements, to settlement of their repayment responsibility in United States dollars. Unfortunately, in the cases of several of these countries the character of the

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<sup>1</sup> In despatch No. 588, not printed, Ambassador Donnelly indicated that under the terms of the Lend Lease Agreement signed by representatives of the two countries on March 18, 1942 (*Foreign Relations*, 1942, vol. VI, p. 735), a balance due to the United States remained in the amount of \$411,243.39 (831.24/7-2748).

post-war economic trends has so unfavorably affected the economic status through incursions on dollar and other foreign exchange holdings that insistence on the part of this Government on full compliance with agreement terms would have the undesired effect of further aggravating the serious condition of these and other economic contingencies. In order to cooperate in such instances and, at the same time, further the interests of this Government, authority has been extended to the Department to consider and put into effect proposals submitted by such a debtor country for the settlement of lend-lease and other contingent indebtedness in the currency of the negotiating country and to employ the funds realized thereby either in the development of a foreign buildings program or to defray the normal operating expenses of this Government's foreign service establishment in that country. In addition, if any dollar credit agreements should be negotiated by the Foreign Liquidation Commissioner under existing authority the usual option to request accelerated payment in local currency might be exercised by the United States to finance foreign buildings and/or educational exchange programs. Straight surplus sales other than interim arms program items may also be made for local currency, in special cases, if such transactions are primarily for the convenience of the United States Government in finishing disposals in the Caribbean area.

During his recent visit to the United States, President Gallegos publicly stated that his Government was not in the market for financial assistance in the form of loans.<sup>2</sup> Other Venezuelan Government officials, including the Ambassador to Washington, have reiterated the statement made by the President and have added the assurance that Venezuela has an ample supply of dollars. Conversations with Embassy officials on the subject of the settlement of the lend-lease accounts imply that as soon as the reconciliation of lend-lease fiscal reportings has been accomplished, full payment of the amounts due will probably be forthcoming in dollars.

According to information received from the Office of the Foreign Liquidation Commissioner, the transactions reported by the Munitions Division, and mentioned in the Embassy's despatch No. 588, were not negotiated through that office but were open market purchases. Certain surplus military properties have been sold to the Venezuelan armed forces by the Office of the Foreign Liquidation Commissioner

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<sup>2</sup> The Export-Import Bank of Washington, on April 2, 1948 authorized Credit No. 365-A for Hotel Tamanaco Compania Anonima, \$2,337,697.00, for U.S. goods and services; on the same date, another Credit No. 441, for S & S Construction Co., \$500,000.00, for U.S. goods and services; and on September 8, Credit No. 451, \$1,950,000.00 for La Electricidad de Caracas, for Diesel electric generator units (*Export-Import Bank of Washington, Eighth Semiannual Report to Congress for the period January-June 1949*, p. 30).

through the Field Commissioner for Military Programs and these sales were negotiated and paid for in dollars. Up to this time no credit agreements have been negotiated with Venezuela under the authority set up for extending such facilities in connection with overseas surplus property transactions.

Gold and foreign exchange holdings of the Central Bank of Venezuela, other banks and the Treasury, at the beginning of the current calendar year, amounted to \$274 million. The value of these accounts, according to statistics published by the International Monetary Fund, had reached \$301 million on May 31, 1948.

On the basis of the above data it will be understood by the Embassy that its suggestion for an alternative settlement formula cannot, in the case of Venezuela, be accorded the favorable consideration of the Department.<sup>3</sup>

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<sup>3</sup> In a note of May 13, 1949 to the Venezuelan Ambassador (Pocaterra), not printed, the Secretary of State acknowledged receipt of his note of April 27 transmitting checks in payment of the \$411,243.39 balance remaining due on the Venezuelan lend-lease account (831.24/4-2749).

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831.6363/9-1448 : Telegram

*The Ambassador in Venezuela (Donnelly) to the Secretary of State*

SECRET

CARACAS, September 14, 1948—5 p. m.

676. I informed President Gallegos today my impressions Communist influences in petroleum industry in Venezuela based upon observations and conversations during my recent visits oil fields (reEmbtel 609 August 17 and 634 August 30<sup>1</sup>). I gave him facts and figures on infiltration Communist labor syndicates in strategic operations including transportation ports, pipelines, power plants and refineries. Also told him about Communist influence in other fields, said that Communist labor syndicate leaders very active in field, while it was my impression that leaders other labor syndicate (AD) seldom visit interior of country. President manifested keen interest in my statements and said he would instruct army to remove dangerous Communist elements from strategic points in case emergency and he would instruct AD labor leaders visit interior at once and maintain regular contacts with AD labor syndicates. He asked me give him in strict confidence some data I collected on Communist activities remarking that he intended get to work on this problem at once. I consider meeting most satisfactory and am inclined believe that from now on government and army will be on alert against Communism in oil fields and at other strategic points in Venezuela.

DONNELLY

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<sup>1</sup> Neither printed.



831.24/9-1548

*Memorandum of Conversation, by the Assistant Chief of the Division  
of North and West Coast Affairs (Krieg)*

CONFIDENTIAL

[WASHINGTON,] September 15, 1948.

Participants: Dr. M. A. Falcón-Briceño, Chargé d'Affaires of Venezuelan Embassy  
Colonel Jorge Marcano, Venezuelan Military Attaché  
Mr. Paul C. Daniels, Director of ARA  
Mr. William L. Krieg, NWC

Colonel Marcano showed Mr. Daniels an extensive list of equipment which is desired for the Venezuelan Armed Forces. The list was not broken down by individual items but specified equipment for various types of military units. Colonel Marcano stated that the list had been prepared by the Venezuelan General Staff in consultation with the American Naval, Army and Air Force Missions and added that he had already given a copy informally to our Department of National Defense.

After examining the list briefly, Mr. Daniels made the following observations: (1) He said that he had no objection in principle to assisting the representatives of the other American Republics in obtaining essential military equipment in this country. (2) With reference to the present list, he pointed out that he could not, of course, pass on its technical aspects and that it would be necessary to consult with the Department of National Defense and its components. He added that such consultation is of necessity a somewhat extended procedure. (3) He reminded Colonel Marcano that the sale of war surplus armaments has been terminated and that it would probably be necessary to obtain the material through commercial sources, if it was available at all. (4) Mr. Daniels stated that as a purely informal matter and without endeavoring to pass on matters within the individual competence of each sovereign state, he regretted the expenditure of large sums of money on military equipment when hospitals and roads were more urgently needed. He emphasized that he had made the same observation to many other foreign representatives and that there was no intention to apply it exclusively to Venezuela.

Colonel Marcano said that he was aware that no further surplus was available and that he had only hoped to find out if it was possible to procure the desired armaments in the United States because, otherwise, it would be necessary to look for it in other places. He explained that he would prefer to get equipment in the United States since replacements and spare parts would be more easily available.

Mr. Daniels replied that the U.S. Government had for some years

pursued the policy of assisting the other American Republics to standardize their military equipment. The exhaustion of war surplus supplies had rendered this program somewhat difficult to implement for the time being, but it still remained a long-range objective of this Government. Nevertheless, if this country is not in a position to satisfy the essential military requirements of the other American Republics, we could scarcely object if they found it necessary to obtain armaments from other sources.

Colonel Marcano then stated that the present equipment of the Venezuelan Armed Forces is obsolete and did not enable the country to defend itself even against a small invasion of well-armed men, or against sporadic attacks. He emphasized that Venezuela, because of its petroleum, would undoubtedly be a military objective of high importance in the next war and that its Government did not want to have to call in foreign troops to protect the petroleum installations since this would have internal political repercussions.

Mr. Daniels concluded the interview by pointing out that the procedure for the formal consideration of requests for armaments is that the Embassy of the country concerned should present a note transmitting the list and that this Department would then give it every consideration and undertake the necessary consultations with other interested agencies of this Government.

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831.6511/9-2448

*The Acting Secretary of State to the Secretary of Commerce (Sawyer)*

WASHINGTON, September 24, 1948.

MY DEAR MR. SECRETARY: It is my understanding that you and Secretary Marshall, following a conversation with Mr. Benjamin Fairless on September 16th<sup>1</sup> regarding the development of the iron ore resources in Venezuela, agreed that each Department should designate an officer to devote his entire time for the moment to consideration of the attitude of this Government toward this matter; whether as a consequence we should accord favorable consideration to Venezuela in the matter of iron and steel or other allocations, and what should be our long-term policy respecting this question.

The Department of State has designated Mr. Sheldon T. Mills, Chief of the Division of North and West Coast Affairs, for this task. It would be appreciated if you could advise me of the name of the official of your Department who has been named to work with Mr. Mills.

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<sup>1</sup>Memorandum of conversation with the President of the U.S. Steel Corporation not printed.

In this connection I understand that the Operating Committee of the Advisory Committee on Requirements, charged with the determination of export licensing policy, decided on September 16th to endorse the Venezuelan public works program as a project which will be given especially favorable supply treatment in the light of considerations of high national policy. This decision was reached, I believe, because of the vital importance to the United States of Venezuelan petroleum production. High Venezuelan officials have repeatedly made it clear to this Department that unless they can convert a portion of their share of petroleum profits into urgently needed public works they see no reason why they should encourage the expansion of petroleum operations. Our interest in the extensive ore deposits of Venezuela, which involves operations of the Bethlehem Steel Corporation as well as the United States Steel Corporation, emphasizes the wisdom of the decision to accord specially favorable consideration to the exportation of iron and steel for the Venezuelan public works program.

While the basic decision in this matter appears to have been made by the Operating Committee, it is the opinion of this Department that those charged with carrying it out should constantly bear in mind the important policy objectives involved.<sup>2</sup>

Sincerely yours,

ROBERT A. LOVETT

<sup>2</sup> In a memorandum of December 20, not printed, Mr. Mills informed Mr. William J. McWilliams, assistant to the Director, Executive Secretariat, Office of the Secretary as follows:

"I have recently been informed that the Office of International Trade, Department of Commerce, issued on December 11, 1948 special project licenses covering exports for the Venezuelan public works program. These licenses authorize shipment of the necessary materials for the construction of schools and other public buildings, hospitals, highways, dock facilities, bridges, airports, irrigation facilities and housing in Venezuela." (831.6511/10-748)

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831.6363/10-2948: Telegram

*The Acting Secretary of State to the Embassy in Venezuela*

TOP SECRET

WASHINGTON, October 29, 1948.

464. Dept approves suggestion note be sent FonOff text of which should be as follows:

"I have honor inform Your Excellency in accordance our conversation Oct 27 my Govt proposes send Ven three technical experts in plant protection to cooperate Ven Govt in studies of mutual interest. James W. Coulter and Paul L. Hopper have been selected this purpose and there will probably be one other individual whose name will be furnished later. They intend depart from US in latter part Nov.

"As I previously informed Your Excellency these three persons will be responsible to me while in Ven. They will make survey properties



oil industry and results their studies will be available to Ven Govt and companies concerned.

"I should be pleased know whether Your Excellency's Govt would wish designate one or more persons collaborate with these technical experts in making survey which I referred."

If you perceive objection foregoing inform Dept.

. . . . .

LOVETT

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